

MONTANA STATE EMPLOYEE COMPENSATION: A MARKET-BASED PLAN

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**MONTANA STATE
EMPLOYEE COMPENSATION:
A MARKET-BASED PLAN**

A Report to the
Governor and 52nd Legislature
from the Committee on State Employee Compensation

Prepared by Sheri S. Heffelfinger, Staff Researcher

Montana Legislative Council
Room 138, State Capitol
Helena, MT 59620

December 1990

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PREFACE AND EXECUTIVE SUMMARY

Origin and Purpose of Study

State employee pay was frozen in 1988 and 1989 because of state budget constraints and because of other policy decisions by the legislature and the executive. Step increases were frozen in 1986 and again in 1988 through 1991. During the 1989 legislative session, substantial debate regarding pay and benefits for state employees resulted in the creation of a nine-member committee to study, in depth, state employee compensation issues. House Bill No. 786, an act addressing pay for state employees, included a provision creating the Committee on State Employee Compensation (Chapter 660, Section 14, Montana Session Laws 1989). The provision directed the Committee to:

- "(a) examine policies governing state employee compensation in Montana;
- (b) study compensation policies of other comparable governmental and private sector entities;
- (c) review professional literature and research on compensation issues;
- (d) analyze and assess various components of the Montana state employee compensation system;
- (e) identify problems with the state employee compensation system and options for resolving these problems. State employees and managers may be surveyed to assist in identifying these problems and options.
- (f) develop recommendations to maximize employee productivity and promote quality governmental services within available funding; and
- (g) report its findings, recommendations, and any proposed legislation to the governor and the 52nd legislature."

The Legislature also appropriated \$90,000 from the general fund to the Department of Administration for the Committee to use "for contracted services, salary and benefits for temporary staff, compensation for committee members, and other necessary expenses incurred by the committee in performing its duties...." (Ch. 660, L. 1989.)

Since the state adopted a uniform pay plan in 1973, which was implemented in 1975, two studies have dealt with state employee pay: an interim study by the Select Committee on State Employee Pay, "Collective Bargaining and the State Wage and Classification Plan", December 1976; and, a final report by the Personnel and Labor Relations Study Commission to Governor Ted Schwinden and the 48th Session of the Montana State Legislature, "Recommended Improvements to Montana State Personnel and Labor Relations Systems", December 1982. Both studies, however, dealt primarily with collective bargaining and its effect on employee pay.

This study by the Committee on State Employee Compensation (Committee) is the first study since the pay plan's adoption that addresses directly state employee pay and the pay structure.

Overview of Committee Activities and Approach

The Committee on State Employee Compensation met 10 times for a total of 11 days between October 27, 1989, and November 6, 1990. The most critical state employee compensation issues identified by the Committee affected the statewide pay plan. Therefore, due to the nature of the issues and the Committee's time and resource constraints, the research and recommendations presented in this study address only the statewide pay plan for classified employees.

In the course of its study of the statewide pay plan, the Committee:

- Studied the history of Montana's pay practices and the development of the current pay plan.
- Contracted with the Bureau of Business and Economic Research at the University of Montana to conduct an attitude survey of state employees, managers, and union representatives. This survey, referred to as the Problem Identification Survey, was designed to identify problem areas and assist the Committee in focusing its research.
- Contracted with The Waters Consulting Group, Inc., a Dallas-based compensation consulting firm, to audit the state's compensation system, identify problems, and recommend solutions for the Committee's consideration.
- Reviewed the results of the Department of Administration's January 1990 salary and benefits survey. This survey included Montana employers and 12 other state governments: Washington, Oregon, Minnesota, North Dakota, South Dakota, Idaho, Wyoming, Utah, Colorado, Arizona, Nevada, and New Mexico.

- Reviewed the pay plans and practices of the 12 states included in the salary and benefits survey.
- Explored shift differentials and hazardous duty pay.
- Examined the state's employee turnover rates and pay plan exceptions.
- Narrowed its study to issues affecting the statewide pay plan and developed specific recommendations regarding: the state's pay philosophy; the salary structure; employee pay increases for fiscal years 1992 and 1993; shift differential pay; and the return of some excepted employees to the statewide pay plan.
- Developed general recommendations regarding the salary survey, longevity, job classification, performance-based pay, and travel expense reimbursement.
- Developed sample legislation incorporating the Committee's primary recommendations.

The Committee's key findings and recommendations are summarized in The Executive Summary. Because of the complexity of state employee compensation issues, the chapters are arranged by topic rather than chronologically. Each chapter consists of background information, a summary of the Committee's findings, the consultant's findings and recommendations, the options considered by the Committee, and the Committee's conclusion and recommendation(s) on the issue.

Biographical sketches of the Committee members are provided at Appendix B. A glossary of terms is provided at Appendix C. A complete list of the reports and studies provided to the Committee on each of the above items may be found at Appendix E.

Executive Summary

This executive summary is provided to highlight the key findings and recommendations of the Committee on State Employee Compensation (Committee). Subsequent chapters provide supporting research and documentation.

The Committee identified three major problem areas in the statewide pay plan:

- The market competitiveness of salary ranges in the pay structure.
(Chapter 3)
- The 13-step design of the existing salary structure.
(Chapter 4)
- General salary increases to keep pace with changes in the market and progression increases to move employees through the pay ranges.
(Chapter 5)

MARKET COMPETITIVENESS AND THE PAY STRUCTURE

Findings

- The Committee found that the midpoint salaries between the minimum (step 2) and maximum (step 13) salary in each grade's pay range are set an average of 18.8% behind a 12-state salary survey and 13% below average salaries found in a survey of Montana employers and the state governments of Idaho, Wyoming, North Dakota, South Dakota, and Washington.

- Pay plan exception requests increased a dramatic 133% from 1989 to 1990. Agencies request exceptions mostly because they cannot hire employees with the necessary qualifications at the entry-level salaries currently provided in the pay plan.
- Salary ranges for professional employees in higher grades are further behind the market than salary ranges for employees in lower grades. This may account for the unusually high turnover rate (11% in grades 14 and 15) among the professional and technical job classes.
- On average, 14% of the state's employees leave state service each year, the fifth highest average turnover among 12 regional states. The state's turnover rate is unusually high among some technical and professional positions (grades 9 - 15) compared to national trends. These positions cost the state approximately \$5,000 to \$10,000 per position to replace, including the cost of recruitment, training, and lost productivity.

Problems

- The pay ranges for each grade are too low to provide competitive entry-level salaries or to provide salaries at the top of the ranges competitive enough to keep experienced employees from leaving state service.
- Even if the state started now and adjusted the current pay ranges in each of the following years to keep up with movement of salaries in the market, the pay ranges would remain behind what other Montana employers and other state governments pay. Additional increases would be required for employees to "catch-up" to average market salaries.

Recommendations

- In establishing new pay ranges for state employees, the state should be guided by a market-based pay strategy in order to attract and retain qualified employees.
- The midpoint salaries of each grade in the statewide pay schedule should match average salaries found in the surveyed market for similar jobs. This survey should consist of weighted survey data from Montana's relevant labor market. On a 7 to 1 vote, the Committee agreed that the relevant labor market should include: Montana employers, the state governments of North Dakota, South Dakota, Wyoming, Idaho, and Washington.*

A salary survey of the market provides the data necessary to build a competitive pay structure with adequate pay ranges from entry-level to maximum salaries for each grade. Pay plan decisions should, therefore, be guided by the market survey data. Furthermore, setting the midpoint salaries for each grade at the market average will: (1) provide an entry-level salary competitive enough to attract qualified employees and cut back on the necessity for pay plan exceptions; and (2) provide an adequate pay range above the midpoint to retain experienced employees.

* During most of the Committee's meetings, the "relevant labor market" was considered to be 12 states in the region, i.e., the 10 states that have historically been included, N. Dak., S. Dak., Wyo., Idaho, Utah, N. Mex., Nev., Ariz., Colo., and Minn., plus Oregon and Washington. At the Committee's final meeting, on Nov. 6, 1990, after much discussion and debate, the relevant market was revised to include other Montana employers and only five states: N. Dak., S. Dak., Wyo., Idaho, and Wash.

THE 13-STEP SALARY STRUCTURE

Findings

- Step freezes in all but 1 year since fiscal year 1986 have (1) violated the credibility of the 13-step statewide plan, (2) created pay inequities between individual employees, and (3) compressed the pay distribution of employees through the steps. Employees hired in the last 6 years are generally still at step 3 or below.
- Pay plan exceptions coupled with the pay freezes have resulted in situations where some experienced employees are being paid less than new employees.

Problems

- Moving state employees from the current step plan into a new, more competitive, market-based step plan will not address the compression of employees at step 3 and below; nor will it address the pay inequities caused by step freezes and pay plan exceptions. Furthermore, moving employees to a corresponding step in a new step plan would result in unequal and "unfair" pay increases because the increases would be based on how close or how far an employee's current salary is from the new corresponding step.
- A step plan is too rigid to accommodate varying amounts of funding year to year. It commits the state to a predetermined annual progression increase at the expense of pay range adjustments and general pay increases to keep pace with the movement of other salaries in the market.

Recommendation

- The statewide pay plan should be changed from a step plan to an open range plan consisting of salary ranges with no steps between the entry-level and the maximum salary for a grade.

In an open range plan, employee salaries may correspond to any salary between the minimum and maximum salary of the range and need not correspond to a predetermined step. This allows more flexibility to equitably progress employees through the pay ranges. An open range pay plan will also allow more flexibility in providing general market-based salary increases to keep pace with the market.

SALARY INCREASES

Findings

- On average, state employees are paid 18.6% below the 12-state area and 13% below the average salaries paid by other Montana employers and the state governments of North Dakota, South Dakota, Wyoming, Idaho, and Washington.
- Average salaries for employees in higher grades are further behind the market than average salaries for employees in the lower grades. Past pay practices have contributed to this problem because the state has often provided relatively larger percentage increases to the lower grades and smaller percentage increases to the higher grades.
- Average salaries in the market have been increasing 3% to 4% annually.
- 50% of the state's employees are compressed at step 3 and below.

Problems

- The state has a long way to go to reach an objective of paying average market salaries because so many employees are compressed at the lower end of their pay range. Furthermore, the pay ranges are an average of 13% behind the market.
- General pay raises for employees must at least correspond to the annual movement in the market or employee salaries will continue to be compressed at or below entry-level and salaries will continue to slip further and further behind the market.
- Individual increases to progress employees through the pay ranges must adequately address the compression of employees at step 3 and below by moving employees from step 3 toward the midpoint of the pay ranges.
- The progression increases must also address the inequity between employee pay and the market.

Recommendation

- Each year, classified state employees should receive an across-the-board general increase to their base salary to correspond to the projected annual movement of salaries in the market. Employees should also receive a progression increase for every full percentage point that the employee's base salary (before the general increase) is below the midpoint salary of the employee's assigned grade to improve their position relative to the market. As previously recommended, the midpoint salary for each grade should be equivalent to the average salary paid in the market.

- The general across-the-board increase for FY 1992 and FY 1993 should be 4%. The additional progression increase for FY 1992 and FY 1993 should be 0.25% for each percent that an employee's base salary falls below the market for his or her grade.

A 4% general increase will allow employee salaries to keep pace with the anticipated movement of salaries in the market each year of the biennium and perhaps start closing the gap between the market and the state's current 13% lag.

The 0.25% progression increase, based on how far an employee's salary is below his or her grade range midpoint (market average), allows the largest increases to go to employees whose salaries are furthest below the market. The progression increase is necessary to move employees from the entry salary toward the market salary (range midpoint). It serves the same function as steps in a step plan. The Committee's market-based progression increase recommendation has no provision for moving employees past the midpoint or "market salary" and is made for the FY 1992-1993 biennium only.

According to the Department of Administration, the total recommended pay increase for state employees would cost an estimated \$77.55 million over the FY 1991-1993 biennium. About \$48 million of the pay increases would come from the state general fund.

LIST OF OTHER RECOMMENDATIONS

- Future salary surveys should include other Montana employers and the state governments of North Dakota, South Dakota, Wyoming, Idaho, and Washington as a base; Montana employers with less than 25 employees should also be included in future surveys; the Department of Administration should begin to track where state employees are recruited from and going to when leaving state

service; and, the Department of Administration should make use of salary surveys by other employers and organizations.

- The Department of Administration should continue its transition to a point factor classification system within available resources to address the problems identified in this study. (Chapter 1)
- The Department of Administration, with a task force of employees, managers, and union representatives, should study the future viability of performance-based pay in the statewide pay plan. (Chapter 5)
- Based on a new, open range pay plan, the longevity allowance provided under section 2-18-304, MCA, should be calculated as the larger of \$10 a month or 9/10 of 1 percent of an employee's base salary multiplied by the number of contiguous 5-year periods of uninterrupted service, thus keeping the amount of the allowance as close as possible to what is currently provided. (Chapter 6)
- To compensate employees for regular work hours that differ from the customary day shift, a shift differential of \$1.00 per hour should be paid to permanent state employees for any regularly scheduled work hours after 6:00 p.m. and before 7:00 a.m. on any day of the week that is required as part of an extended service obligation. (Chapter 8)
- The Department of Administration should study the state's policy on travel expense reimbursement and develop recommendations for future consideration by the administration and legislature. (Chapter 8)
- Employees of the State Compensation Mutual Insurance Fund, except the executive director, should be returned to the statewide pay plan. (Chapter 9)

CHAPTER 1

JOB EVALUATION AND CLASSIFICATION

BACKGROUND

The primary objective of the statewide position classification system is to provide similar pay for similar work, as required by section 2-18-202, MCA. The law also requires that the state work toward the goal of comparable worth. Comparable worth means that job classes of equal skill and responsibility are paid equally even if the job duties are different.

To achieve similar pay for similar work, positions are grouped into a class based on "similarities of duties performed" (2-18-201, MCA). To achieve comparable worth, classes are ranked against each other to determine the relative skill and responsibility of one class to another.

These classification decisions are made by applying a job evaluation methodology. The job evaluation methodology contains the criteria, or factors, that are used to compare and rank positions and classes. Traditionally, at least four factors are used in job evaluation: skill, effort, responsibility, and working conditions.¹

There are several quantitative and non-quantitative job evaluation methods. Currently, the Department of Administration's Classification Bureau is in the process of converting from a non-quantitative factor comparison job evaluation method to a quantitative point factoring method.² The Classification Bureau bases its job evaluation on five compensable factors:

- nature of work;
- amount of supervision received;
- amount of supervision/management over others required;
- personal contacts required; and

- the scope and effect of actions and decisions.

As each job is evaluated, it is awarded points on each of these factors. The points are totaled, the job is grouped into a class of jobs having similar point totals, and finally the classes are ranked and assigned grades. Selected benchmark jobs serve as guidelines for the grade-ranking process. There are 25 grades in the statewide pay plan, with grade 1 being the least skilled grade and 25 being the highest or most complex grade. In practice, most jobs are in grades 5 - 18. Each grade has a pay range. The entry-level salary is the minimum salary that the state will pay to recruit qualified employees in that grade. The maximum salary of the grade's pay range is the most that the state is willing to pay for jobs in that grade. There are approximately 12,600 state jobs classified under the Statewide Pay Plan and 1,310 job classes.³ Figure 1 shows the broad job occupations included in each grade.

Figure 1
Grade Ranges Assigned to Certain Types of Classes

Type of Class	Grade Ranges
Administrators/officials	16 - 22
Professionals	12 - 16
Technicians	9 - 13
Paraprofessionals	8 - 11
Office/clerical	5 - 11
Skilled craft	10 - 12
Service/maintenance	5 - 12

Source: Department of Administration, State Personnel Division, Classification Bureau

Reclassification

Positions may be reclassified to a higher or lower grade if there are significant changes in the duties and responsibilities of the position. An employee, agency, or the State Personnel Division may initiate the reclassification process, but the Department of Administration and the Board of Personnel Appeals retain final approval authority.⁴

SUMMARY OF FINDINGS

In addition to background reports on the state's compensation plan, the Committee reviewed testimony and correspondence and the consultant's report regarding job evaluation and classification issues.*

Testimony and Correspondence

From October 1989 to September 1990, 23% of the testimony and correspondence received by the Committee addressed the classification issue. Individuals' comments expressed the following attitudes about the state's classification system:

- There should be less emphasis on supervision received or exercised over others in the job evaluation process.
- Classifications do not provide professionals, scientists, and technicians with career progression outside of management positions.
- The classification appeals process is too cumbersome.

* The Committee hired The Waters Consulting Group, Inc., Dallas, Texas, as a compensation consultant in January 1990. The consultant's preliminary report was presented to the Committee in May 1990; the final report was presented in June 1990.

- The reclassification process has been abused causing pay inequities among employees and between agencies, and classifications which do not accurately reflect job responsibilities.⁵

The Consultant's Findings

Mr. Rollie Waters of The Waters Consulting Group, Inc., (TWCG) presented his preliminary findings to the Committee in May 1990, and his final report in June. TWCG conducted no systematic study of the state's classification system and the findings listed below are based on the consultant's best judgements and past experience. TWCG reported that:

- The current procedures followed by the Classification Bureau of the Department of Administration follow guidelines established by generally accepted compensation principles regarding the use of position description questionnaires and job audits documenting the job analysis process.
- The state's employee profile is too diverse to be served by one job evaluation system.
- The integrity of the current job evaluation system has been eroded by poor design in 1976 and an inability to change the system due to political, labor, and administrative constraints.
- Position descriptions and/or class specifications have not been consistently updated.⁶

The Consultant's Recommendations

- Rewrite all position descriptions and/or class specifications within the State and require a review and approval by two levels of supervision and a sign-off by the employee and the supervisors.

- Provide each employee with a copy of their new position description and/or class specification.
- Divide the employees currently paid in the Statewide Pay plan into two job-family groups: exempt and nonexempt. Develop a new quantitative, point factor job evaluation system for each of the two groups. Develop new compensable factors, levels, and weights for each group.
- Use a bilateral (management-union collaboration) approach to developing a new job evaluation system(s).
- Use C.A.S.S. (a software program developed by TWCG) to assist in the development and maintenance of the new job evaluation system(s).⁷

Committee Discussion

Following TWCG's preliminary report in May, the Committee worked to focus its efforts on the most pressing compensation issues. Noting limited time and other critical problem areas, the Committee unanimously voted not to spend more time researching classification. However, it did vote to recommend that the Department of Administration continue its transition to a point factoring classification system and address the problems identified in the Committee's study. In July, the Committee reaffirmed its action on the classification issue.

ISSUES AND OPTIONS

Because of the Classification Bureau's past and present work to change to a policy-capturing point factor classification system, the primary issue before the Committee was:

- Should the Committee recommend that all state job descriptions and class specifications be rewritten prior to implementing a new pay plan on July 1, 1991, or should the Department of Administration continue with its transition to a point factor classification system?

The Committee, reviewing cost estimates of rewriting job descriptions and class specifications prior to July 1, 1991, found that costs ranged from \$80,000 to \$100,000.

CONCLUSION AND RECOMMENDATION

Based on its findings and discussion regarding job evaluation and classification, the Committee concluded in July that the job classification issues identified by the consultant were being addressed by the Classification Bureau. The Committee, therefore, unanimously voted to let stand its May 10, 1990, recommendation:

- **RECOMMENDATION: THE DEPARTMENT OF ADMINISTRATION SHOULD CONTINUE ITS WORK FOR A 3-YEAR TRANSITION TO THE POINT FACTORING CLASSIFICATION SYSTEM USING EXISTING RESOURCES TO ADDRESS THE PROBLEMS IDENTIFIED IN THIS STUDY.**
- **LEGISLATION REQUIRED: None recommended.**

NOTES

1. Elements of Sound Base Pay Administration, "Base Pay Program Objectives," (Scottsdale, Arizona: American Compensation Association; Berea, Ohio: American Society for Personnel Administration), 1981, p. 2.
2. See, Personnel and Labor Relations Study Commission, "Position Classification," Staff Report No. 5, by John McEwen, March 25, 1982, for a discussion of the history and background of the state's classification system.
3. Department of Administration, Personnel Division, Classification Manual, Statewide Inventory, Vol. I, July 1989.
4. See, section 2-18-203, MCA.
5. See, Minutes, Committee on State Employee Compensation, February 8, 1989.
6. The Waters Consulting Group, Inc., The state of Montana Compensation Issues and Recommendations: A Study of the Current Compensation System, June 1990, p. 1-1.
7. Ibid., p. 1-2.

CHAPTER 2

THE MARKET AND EMPLOYEE PAY

BACKGROUND

The single most significant compensation problem identified by the Committee is that state employee pay is too low to compete effectively in Montana's labor market. This chapter discusses state employee pay and the market: how competitive the state's pay policy is, problems with recruiting and retaining qualified employees, and how comparability with the market can be achieved and maintained in the pay schedule.

Section 2-18-301(1) of the Montana Code Annotated (MCA) states that the Legislature's intent regarding state employee pay "is to provide the compensation necessary to attract and retain competent and qualified employees...". Section 2-18-301(3), MCA, provides that wage and salary administration be "on the basis of merit, internal equity, and competitiveness to external labor markets when fiscally able". However, the Committee found that the state's pay policy has been driven more by collective bargaining and budget limitations than by consideration of the labor market.

To measure the market competitiveness of an organization's pay plan, compensation analysts traditionally compare the middle of each grade's salary range, defined as the *midpoint* between the minimum and maximum of the pay range, to the average salaries paid for similar jobs in the labor market.¹ A salary survey of an organization's relevant labor market is the most commonly accepted method of accomplishing this comparison.² The Department of Administration conducts a salary and benefits survey of Montana employers and other state governments every 2 years.

The data collected in a salary survey establishes a *market line* representing the average salaries paid by other employers for similar jobs. Based on this

data, an organization may establish a *pay policy line*. As explained by one compensation analyst: "The pay policy line represents the organization's pay level policy relative to what the competition pays for similar jobs."³

SUMMARY OF FINDINGS

Examining the structural competitiveness of Montana's statewide pay plan, the Committee collected and evaluated information from testimony and correspondence, the Problem Identification Survey of employee attitudes, staff reports on pay exceptions and turnover rates, the Department of Administration's 1990 salary survey, and the findings and recommendations of The Waters Consulting Group, Inc. (TWCG).

Testimony and Correspondence

Sixty-nine percent of the testimony and correspondence to the Committee between October 1989 and September 1990 stated that salaries should be market-based and that pay increases were not keeping up with the market. The following problem areas were identified by managers and agency and department heads, as well as by employees:

- Many agencies are experiencing critical recruitment and retention problems, especially for certified engineers, data processors, nurses, and other specialized occupations.
- Pay plan exceptions to address recruitment and retention difficulties in the agencies have resulted in situations where new employees are paid close to the same salaries or more than their experienced coworkers or supervisors.
- Internal pay inequities are causing inter-agency turnovers and staff shortages in some agencies with classified occupations. For example, a classified data processor working in one agency may be recruited to

do the same job in a non-classified position in another agency for a more competitive salary.⁴

Problem Identification Survey

To further identify problems in the state's compensation plan and the issues of highest priority to state employees, the Committee surveyed 1,140 employees, 242 managers, and 36 union representatives. In November 1989, the Committee contracted with the University of Montana's Bureau of Business and Economic Research to assist the Department of Administration in developing and administering the survey and in tabulating the results.⁵

This survey was designed to measure employee attitudes and perceptions about the state's compensation package. The results should not be interpreted as fact; rather, the results are an indicator measuring how satisfied (or dissatisfied) employees, managers, and union representatives are with different aspects of the state's compensation plan.

An analysis of the survey responses highlights the following general findings:

- The lack of competitive salaries, step increases, or cost-of-living adjustments (COLA) are the compensation factors creating the most dissatisfaction among employees, managers, and union representatives.
- Most employees feel that salaries are more competitive for entry-level employees than for experienced employees with more years of state service.
- Employees in the lower grades generally rated their salaries as more competitive than did employees in higher grades.⁶

Pay Plan Exceptions

Under provisions of section 2-18-303(7), MCA, the Department may develop programs to "mitigate problems associated with difficult recruitment, retention, transfer, or other exceptional circumstances". In 1989, the Legislature further authorized the Department to adjust pay or classification to mitigate problems caused by inadequate salaries (see, section 2-18-303(8), MCA). Under this authority, the Department of Administration has developed a 3-part pay exception program to address employee recruitment and retention problems:

- (1) an agency may hire an individual at a step higher than step 1;
- (2) a 2-year blanket step exception for an entire class of jobs may be granted to provide a hiring rate above step 1 for all jobs in that class; and
- (3) a 2-year adjustment to a higher grade may be granted to an entire class of jobs if the blanket step exception is inadequate to attract qualified employees.⁷

A pay plan exception program is necessary in any compensation plan for flexibility to address special circumstances. However, a significant increase in the number and size of the pay exceptions is an indicator of problems with the market competitiveness of a pay plan. A paper prepared by the State Personnel Division and presented to the Committee in October 1990 reported that:

- From 1989 to the present, there has been a dramatic 133% increase in the number of pay exception requests.

- Pay plan exception requests to address recruitment and retention difficulties have primarily involved professional nurses, engineers, and scientists.
- The average number of steps requested for an exception increased from 3.1 steps in 1988 to 8.7 steps in October 1990.

Problems With Pay Plan Exceptions

The State Personnel Division report noted that individual exceptions granted for difficult recruitment, as well as blanket exceptions for job classes, result in the following problems:

- Newly hired state employees often earn more money than long-term employees.
- Outside applicants are offered higher salaries (due to a pay exception) than equally qualified state employees who are not allowed an individual pay exception under the exception program.
- Internal pay inequities result when non-general fund agencies are able to grant pay exceptions to acquire qualified employees, while agencies more dependent on the general fund cannot afford to pay the higher salaries.

Turnover Rates and Associated Costs

The State Personnel Division also prepared for the Committee a report on turnover rates among state employees.⁸ Data from this report show that:

- Montana is experiencing, on average, a 14% turnover of employees leaving state government compared to the average of 12% turnover in 12 other states and the local private sector. The turnover rates in

other states range from 5% in Oregon to 17% in Nevada, placing Montana fifth highest in percentage of employee turnover, but below Nevada, Wyoming, South Dakota, and North Dakota.

- In the technical and professional grades, the highest average turnover rates are in grades 14 and 15 (10% to 11%) and grades 19 (12%) through 20 (14%). Significantly, these grades represent 19% of the state's work force and cost approximately \$5,000 to \$10,000 per position to replace, which includes the cost of recruitment, training, and lost productivity.
- As a percentage of total FTEs, between-agency transfers average 4.3%. The highest between-agency transfers occur at grades 6, 7 and 9.
- Combining the turnover rates for employees leaving state service, within-agency transfers, and between-agency transfers, the state is experiencing an average 39% turnover rate among the state's total FTEs.

Figures 2, 3, and 4 illustrate the turnover data.

Figure 2

Average Turnover
Permanent Employees Who Choose
to Leave State Service

<u>State</u>	<u>Average Turnover</u>	<u>Notations</u>
Nevada	17%	
South Dakota	16%	Perm/FTE separate from service
North Dakota	15%	
Wyoming	15%	Perm/FTE separate from service
Montana	14%	Perm/FTE separate from service
Arizona	13%	Perm/FTE separate from service
New Mexico	13%	Perm/FTE separate from service
Colorado	12%	Perm/FTE separate from service
Utah	12%	Perm/FTE separate from service
Idaho	10%	Perm/FTE separate from service
Washington	9%	Perm/FTE separate from service
Minnesota	6%	Separate from state service only
Oregon	5%	Perm/FTE separate from service
Average	12%	

Source: Montana Department of Administration, State Personnel Division

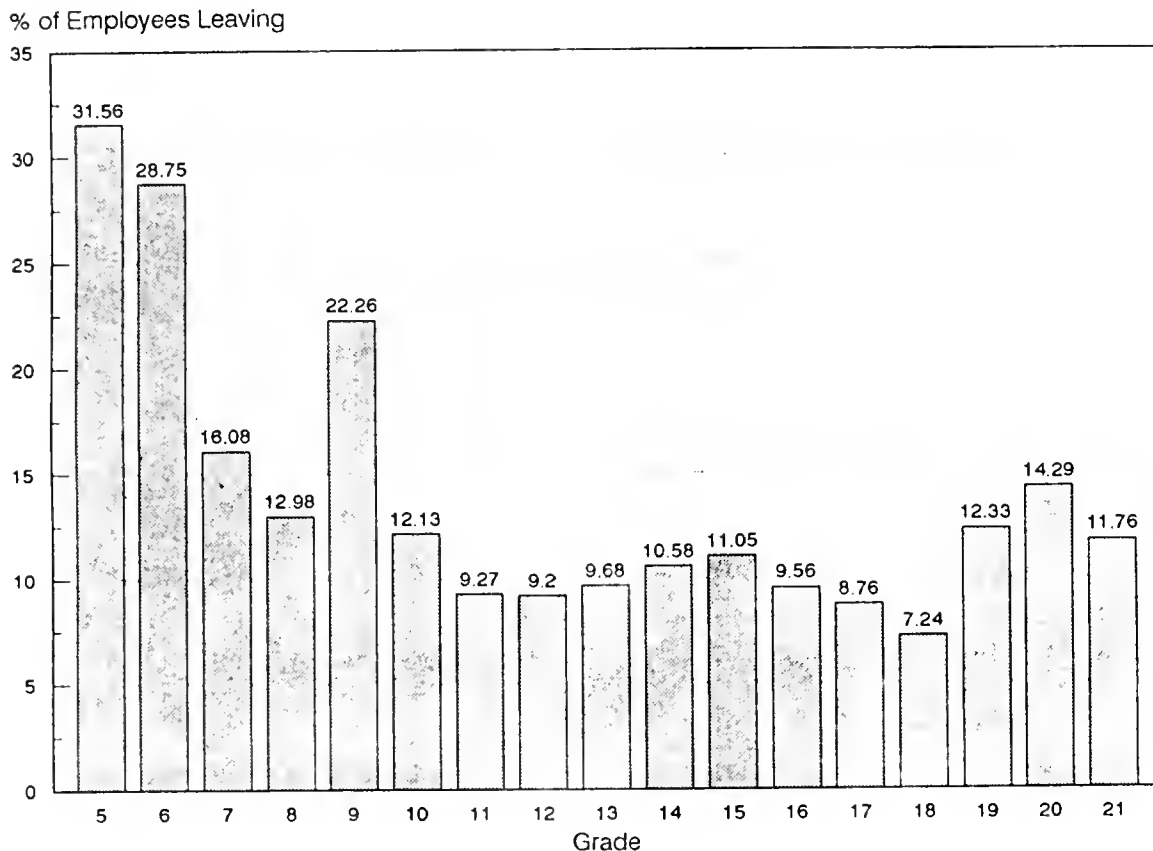
Figure 3

Turnover Data For Period of
July 1, 1989 Through June 30, 1990

<u>Grade</u>	<u>Total # FTE by Grade</u>	<u>Total # of Turnover</u>	<u>Total # Leaving State</u>	<u>% Leaving State Service</u>	<u># Within Agency Transfers</u>	<u>% Within Agency Transfers</u>	<u># Between Agency Transfers</u>	<u>% Between Agency Transfers</u>	<u>Turnover as % of FTE</u>
1	0.50	10	0	0	10	100	0	0	2000.00
2	0	0	0	0	0	0	0	0	0.00
3	0	0	0	0	0	0	0	0	0.00
4	4.09	3	2	50.00	0	0	1	25.00	73.35
5	115.03	192	77	31.56	103	42.20	12	4.91	166.91
6	305.95	243	94	28.75	119	36.39	30	9.17	79.42
7	677.34	276	118	16.08	185	25.20	73	9.95	55.50
8	1215.52	427	177	12.98	214	15.69	36	2.64	35.13
9	796.61	450	150	22.26	253	37.54	47	6.97	56.49
10	771.64	193	112	12.13	161	17.44	21	2.28	38.10
11	729.55	189	71	9.27	96	12.53	22	2.87	25.91
12	899.96	247	83	9.20	137	15.19	27	2.99	27.45
13	1010.30	256	103	9.68	108	10.15	45	4.23	25.34
14	1108.62	313	119	10.58	166	14.76	28	2.49	28.23
15	696.83	191	81	11.05	87	11.87	23	3.14	27.41
16	469.78	117	52	9.56	52	9.56	13	2.39	24.91
17	258.10	69	24	8.76	32	11.68	13	4.74	26.73
18	145	31	11	7.24	15	9.87	5	3.29	21.38
19	66	22	9	12.33	9	12.33	4	5.48	33.33
20	27	10	4	14.29	5	17.86	1	3.57	37.04
21	17	3	2	11.76	1	5.88	0	0	17.65
22	11	1	0	0	0	0	1	0	9.09
23	2	1	1	100.00	0	0	0	0	50.00
24	1	0	0	0	0	0	0	0	0.00
TOTALS	9328.95	3445	1290	13.83%	1753	18.79%	402	4.31%	36.93%

Source: Montana Department of Administration, State Personnel Division

Figure 4
Percentage of Employees Leaving
State Service by Grade
(July 1, 1989 Through June 30, 1990)



Please Note: The high turnover in grades 5 and 6 is consistent with national trends. However, the turnover in grades 9, 14, and 15 and grades 19 and 20 is higher than should be expected in professional grades according to national trends.

Source: Montana Department of Administration, State Personnel Division

The 1990 Salary Survey

In January 1990, the Committee hired The Waters Consulting Group, Inc., (TWCG) to audit the state's pay plan, identify problems, and recommend solutions. TWCG's preliminary and final reports included an analysis of the

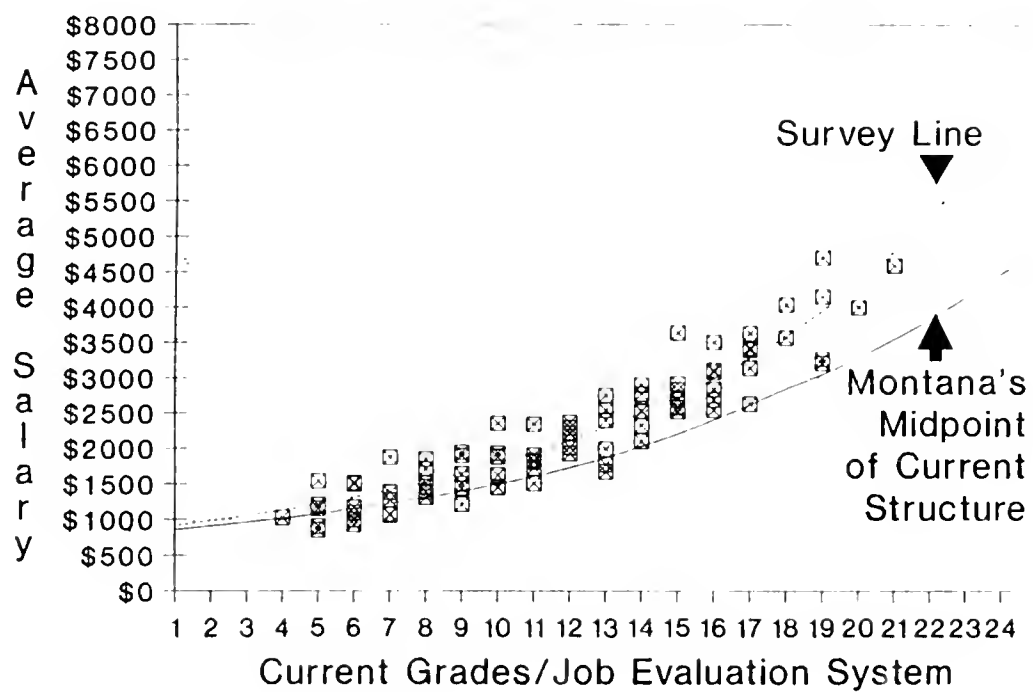
data collected by the Department of Administration's 1990 salary survey. This survey included in-state public and private employers and the state governments of 12 other states: North Dakota, South Dakota, Wyoming, Idaho, Washington, Oregon, Minnesota, Colorado, Arizona, Nevada, and New Mexico. *[Please note that the Committee later decided to use salary survey data only from Montana employers and the governments of North Dakota, South Dakota, Wyoming, Idaho, and Washington state based on the assertion that these five states more appropriately represented the labor market relevant to Montana.]*

According to the survey of Montana employers and the 12 states, Montana's pay structure is an average of 18.8% behind the market. In other words, based on the 1990 salary survey data, midpoint salaries* of each grade in Montana's pay schedule are, on average, 81.2% of the average salaries that other employers pay for comparable jobs. The pay ranges for higher grades are further behind the market than the pay ranges for lower grades. (See Figure 5.)

Compared to the Committee's recommended survey of Montana employers and a 5-state survey of the state governments of North Dakota, South Dakota, Wyoming, Idaho, and Washington, the midpoint salaries of pay ranges in Montana's statewide pay plan are an average of 13% below the market, i.e., 87% of the average salaries paid by the surveyed employers as illustrated in Figure 6.

* The midpoint of each pay grade in the current 13-step statewide pay schedule roughly corresponds to step 6. The actual midpoint is the salary in the middle between the step 2 salary and the step 13 salary of each grade in the state's pay schedule.

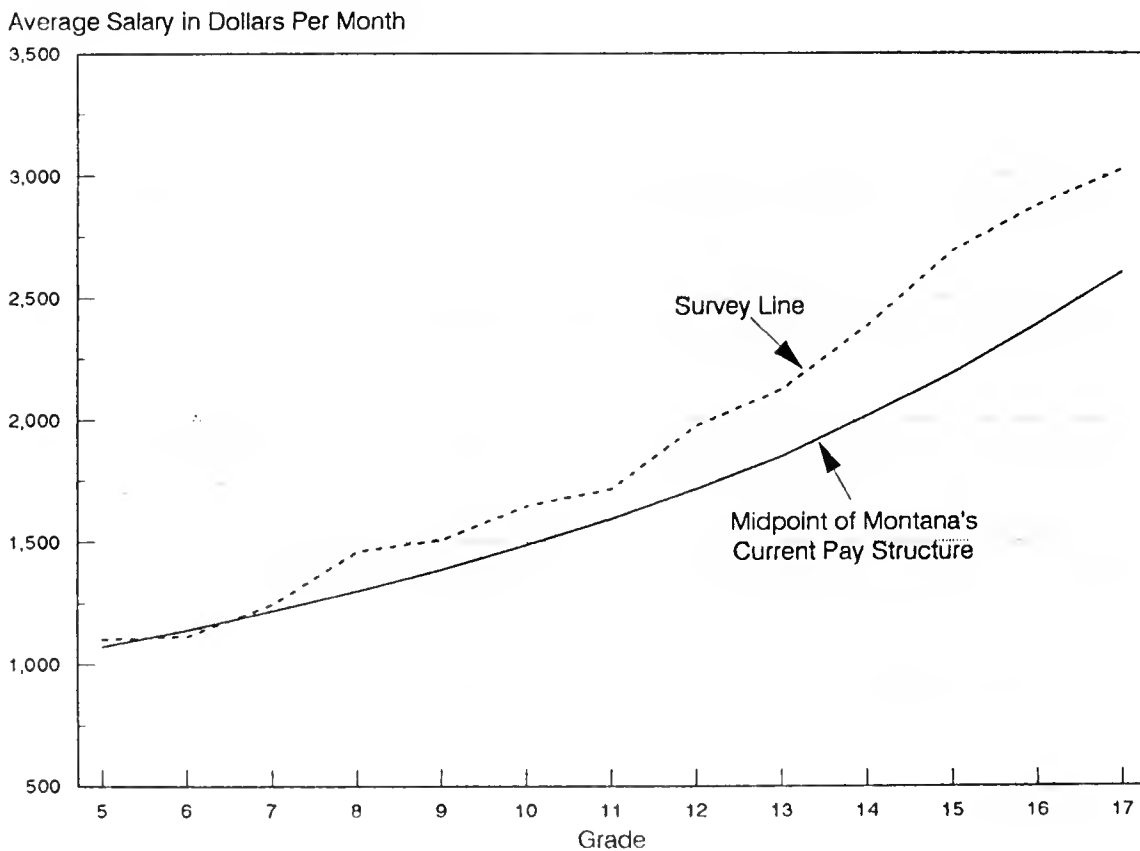
Figure 5
Midpoint of Montana's Pay Structure
Compared to 12-State Survey



Dots Represent Jan 1990 Survey Results

Source: The Waters Consulting Group, Dallas, Texas

Figure 6
Midpoint of Montana's Pay Structure
Compared to 5-State Survey



Source: Montana Department of Administration, State Personnel Division, Classification Bureau

The Consultant's Findings

In its final report to the Committee on June 1990, TWCG outlined its findings related to the market competitiveness of Montana's pay plan. Among other findings, the report stated:

- The state has not used market survey data as a driving force in establishing competitive pay rates for employees in the statewide plan.
- Current compensation strategies have been intermingled with bureaucratic needs resulting in a system that has punished the employees it was designed to serve.
- Attempts to make needed improvements in the current compensation system have been stymied by lack of support from both labor and management.
- Adjustments to the pay ranges for each grade have historically been established through collective bargaining agreements negotiated for a small percentage of employees. Consideration has not been given to the needs of the employee population as a whole.
- Basic weaknesses exist in the current salary survey process:
 - Survey results are not directly linked to establishing competitive rates of pay for all employees. Historically, the salary survey has been used as a guideline only and, therefore, has provided statistics relative to broad occupational categories rather than specific classifications.
 - By randomly selecting survey participants from a computer database of employers, the state is limited to size and industry type in its analysis of the relevant labor market.
 - To document job matches in the survey, the state includes in the survey packets a job summary of the class specifications rather than a complete description of the position or class

specification. This is a satisfactory method, providing the job summary is accurate and well written.

- The state does not currently ask the survey participants to clarify their degree of similarity with the benchmark classes.⁹

The Consultant's Recommendations

To achieve and maintain market competitiveness in Montana's pay structure and to improve the salary survey process, TWCG recommended that the state:

- Define a market strategy centering around a 5-year plan. In FY 1991, the state should set the midpoint salary of each grade's pay range at 90% of the average salary for the jobs in that grade as determined by a market survey. Subsequently, the state should work toward achieving 95% of the market within 5 years by annually increasing employee salaries the same amount that salaries move upward in the surveyed market plus an additional 1%. *[The Committee later changed this to a recommendation that midpoint salaries match 100% of average market salaries. See, Committee Discussion, Minutes, CSEC, October 18, 1990.]*
- Use salary survey data to make decisions regarding the maintenance of the pay structure and the amount of pay increases.
- Improve the salary survey process as follows:
 - Incorporate salary survey data with job evaluation data in the maintenance of the pay structures for state employees.
 - Choose survey participants to more accurately reflect the state's relevant labor market.

- Involve the key policy decision makers and union representatives in the selection of survey participants prior to the survey.
- Send complete position descriptions or class specifications in the survey packet to facilitate the job matching process.
- Request survey participants to match jobs as either an even match, a heavy match, or a light match.
- Request that the survey participants not include longevity in the base monthly salary amount.¹⁰

ISSUES AND OPTIONS CONSIDERED

In June 1990, the Committee considered the following issues and options for defining its pay policy and primary compensation objective:

Issue 1: What compensation objective is most important in setting the state's pay philosophy?

Options

- A. Competitive salaries to attract and retain qualified employees is the most important compensation objective.
- B. Compensation for years of service is the most important compensation objective.¹¹

Committee Discussion, Issue 1

The Committee considered a motion that the two options be combined. The motion failed on the grounds that compensation based on longevity contradicts the market-based philosophy of competitive salaries. However, the Committee concurred that Option A covered compensation for an employee's experience as an important objective and unanimously voted that competitive salaries to attract and retain qualified employees is the most important compensation objective.¹²

Issue 2: What should the state's pay policy be, relative to the market survey line?

Options

- A. The midpoint salaries of each grade should match the market survey line.
- B. The midpoint salaries of each grade's pay range should be no further than 10% below the market survey line.
- C. The midpoint salaries of each grade in the statewide pay schedule should be no further than 15% below the market survey line.

Committee Discussion, Issue 2

Committee discussion centered on what the state's initial and long-term policy should be regarding employee pay and the market. In discussing a motion that the Committee adopt Option A, opponents argued that while matching the market makes sense idealistically, the Committee had to be realistic if it was going to get legislative support for its recommendations. Proponents of the motion said the Committee's recommendations had to be supported by employees as well as the Legislature, that state employees

should be paid what other employees are paid, and that while matching market policy in the long-term was one issue, how to implement the match-market policy was another.

The motion that the midpoint salaries of each grade in the pay schedule should match the market over the long-term failed on a tie vote of 4 to 4.

Another member moved that the Committee recommend Option B, a 10% lag policy as recommended by the consultant. After differentiating between the Committee's objective versus the state's objective and the long-term goal versus the immediate goal of the Committee, the motion was amended to state that:

The objective of the Committee is that midpoint salaries, or the going rate, should be no further than 10% below the market survey line initially, with a target of no further than 5% below the market to be reached by increments in no more than 5 years.

This motion carried 7 to 1 and was based on the following rationale:

- The salary survey data was based on weighted averages rather than simple averages which could result in salaries from larger, metropolitan state governments having a greater influence on survey results.
- Montana's benefit package is a strong addition to the overall competitiveness of employee compensation (see Chapter 7).
- Compensation for public service should not lead the market.
- The lag policy would conservatively consider the margin of error in the survey data.

- The cost of matching the 12-state market is prohibitive.¹³

Public Comment on Preliminary Pay Proposal

In October 1990, the Committee distributed a flyer to state employees and interested parties outlining the Committee's preliminary pay proposal and soliciting reaction. Subsequently, the Committee held a hearing on October 17, 1990. A majority of the individuals who testified criticized the Committee's market lag policy and felt state employees should earn 100% of average market salaries. However, correspondence received by the Committee just prior to the hearing was more positive towards the Committee's preliminary proposal. One hundred thirty-seven of the 158 individuals who sent written comments endorsed the market-based philosophy; twenty of the 158 individuals who sent written comments to the Committee objected to the market lag policy.

Committee Discussion, October 18, 1990

At the October 18 meeting following the hearing, the Committee, responding to criticism of the market lag policy at the hearing, debated about the nature of the Committee's responsibility. Some members said the Committee should recommend solutions to the state's pay problems no matter what the cost. Other members referenced the Committee's enabling legislation, HB 786, which states that the Committee's recommendations be "within available funding".¹⁴

Split 5 to 4, the Committee voted to drop the 10% to 5% lag policy and to recommend a pay policy to match average salaries in the market. The Committee directed the staff to prepare information allowing the Committee to look closer at the most appropriate labor market and to develop pay increase formulas representing biennial costs from \$40 million to \$200 million based on a match-market policy.¹⁵

NEW ISSUES AND OPTIONS, NOVEMBER 1990

The Committee's vote to match the market and direction that the staff develop various cost options required the Committee meet again to discuss the market and the salary survey data.¹⁶ These issues and options are summarized below:

Issue 1: In general, given the Department of Administration's 1990 salary survey data and the Committee's recommendation that salaries for state employees be based on 100% of the market survey line, what employers should be included in the survey of the relevant labor market?

Options

The staff presented various market survey options for the Committee's consideration. Using salary survey data from selected states and in-state Montana employers, the staff was able to present the Committee with state employee salaries compared to various market survey lines. This comparison shows Montana's *compa-ratio*, i.e., state employee salaries as a percent of the surveyed market. Figure 7 shows Montana's compa-ratios compared to the averages of nine different combinations of Montana employers and other state governments.

Figure 7
Compa-Ratios
1990 Salary Survey

	<u>Survey Participants</u>	<u>Compa-ratios</u>
1.	12 states in survey: Minn., N. Dak., S. Dak., Wyo., Colo., N. Mex., Ariz., Idaho, Utah, Nev., Ore., Wash.	79.4
2.	12 states and Montana employers	82.0
2A.	12 states and Montana employers (unweighted average)	84.8
3.	Montana employers only	90.7
4.	Montana and four contiguous states	93.1
5.	Montana, four contiguous states, Utah	92.28
6.	Montana, four contiguous states and Utah, Ore., Wash.	86.74
7.	Montana, N. Dak., Wyo., Idaho, Utah, Ore.	88.55
8.	Montana, N. Dak., Wyo., Idaho	89.39
9.	Montana, four contiguous states and Wash.	87.3
9A.	Montana, four contiguous states and Wash. (unweighted average)	89.5

Please note: Except for 2A and 9A, the compa-ratios shown represent Montana state employee salaries as a percent of the weighted market average.

Source: Montana Department of Administration, State Personnel Division, Classification Bureau

Committee Discussion, New Issue 1

The Committee spent considerable time reviewing and discussing which employers and states comprise the relevant labor market and, consequently, should be included in the salary survey. Among the primary questions discussed by Committee members were:

- Where are state employees recruited from and where are they going to when they leave Montana state government? The state does not presently track this information. However, a staff survey of MSU and U of M showed that 11% of the university graduates find jobs in Washington state.
- How many jobs in Montana state government can be matched inside the state and how many jobs must be matched outside the state because there is no in-state comparison?
- How many out-of-state employers should be included in the survey to provide a statistically valid database for jobs that cannot be matched inside the state?
- Are enough smaller in-state employers included in the salary survey?
- Should South Dakota be included in the survey since its salaries are so low that it lowers the average market salaries?
- Should Washington be included in the survey since its salaries are so high that it raises the average market salaries and even though the cost of living in Washington may also be higher than in Montana?
- Can Washington and South Dakota be excluded from the survey without compromising the database by surveying fewer states?

- What survey is defensible to the Legislature and to employees?

Following various motions and substitute motions, all of which failed, the Committee voted 7 to 1 to include Montana employers, North and South Dakota, Wyoming, Idaho and Washington State in the salary survey. Based on survey data from these five states and Montana employers, Montana state employee salaries are 87.3% of the market (i.e., 12.7% below the market) using survey weighted averages; and 89.5% of the market (i.e., 10.5% below the market) using simple averages. Weighted averages are based on the number of positions paid a certain salary, while simple averages are based on the number of organizations that pay a certain salary.

Issue 2: Should the salary survey data be based on weighted averages or simple averages?

Committee Discussion, Issue 2

Proponents of using weighted averages argued that, as noted by the consultant, weighted averages give a better indication of what the market is doing. Opponents of using weighted averages argued that simple averages will off-set the undue influence of states that are larger employers.

The Committee voted 6 to 2 to use weighted averages in the salary survey.

Issue 3: Based on the Committee's discussion of various markets and cost options, how should the Committee address procedures for future surveys?

Options

- A. Recommend that the state implement the consultant's recommendations for future surveys. (These recommendations are summarized on pp. 22-23 of this chapter.)

- B. The Committee's previous vote to include Montana employers, the four contiguous states and Washington and to use weighted averages should be applied to future surveys.
- C. Future surveys should be conducted in the same manner as the State Personnel Division's 1990 salary survey was conducted.
- D. The Committee should make no recommendation regarding future salary surveys.
- E. Other.

Committee Action

The Committee voted unanimously to develop its own option (E) and recommend that the State Personnel Division: (1) track where employees are recruited from and where they are going when they leave state government for another job; (2) include Montana organizations that employ fewer than 20 employees; and (3) make better use of third-party survey data.

CONCLUSIONS AND RECOMMENDATIONS

Based on the Committee's findings that the state's current pay plan is not market-based, that the statewide pay schedules average 13% below the 5-state market, and that a competitive pay schedule is essential to address recruitment and retention problems, the Committee on State Employee Compensation makes the following recommendations:

- **RECOMMENDATION: IN ESTABLISHING THE PAY SCHEDULES FOR STATE EMPLOYEES, THE STATE SHOULD BE GUIDED BY A MARKET-BASED PAY PHILOSOPHY IN ORDER TO ATTRACT AND RETAIN QUALIFIED EMPLOYEES. (Adopted unanimously on June 29, 1990.)**

LEGISLATION REQUIRED: The Committee suggests that Section 2-18-301(1), MCA, be revised as proposed in Section 3 of the Committee's sample bill at Appendix A. The draft legislation also includes a statement of intent to further define this market-based philosophy and to outline broad standards for the salary survey process.

- **RECOMMENDATION: THE MIDPOINT SALARIES OF EACH GRADE IN THE STATEWIDE PAY SCHEDULE SHOULD BE SET AT 100% OF AVERAGE SALARIES FOUND IN THE 1990 SALARY SURVEY. (Adopted 5 to 4 on October 18, 1990.) THIS SURVEY SHOULD BE BASED ON WEIGHTED SALARY DATA FROM MONTANA EMPLOYERS AND THE GOVERNMENTS OF NORTH DAKOTA, SOUTH DAKOTA, WYOMING, IDAHO, AND WASHINGTON.**

LEGISLATION REQUIRED: The Committee recommends that the pay schedules in section 2-18-312, MCA, be revised as proposed in Section 7 of the Committee's sample bill at Appendix A. The midpoint salaries provided in the proposed pay schedule for FY 1992 and 1993 represent 100% of the 1990 average salaries in the market plus 4% each year anticipating that salaries in the market will increase by an average of 3% to 4% annually between FY 1990 and FY 1993. The Committee also recommends that section 2-18-301(2), MCA, be revised to articulate the intent that the midpoint salaries for each grade match the market average for jobs in that grade. (See Section 3 of the sample bill at Appendix A.)

- **RECOMMENDATION: FUTURE SALARY SURVEYS SHOULD INCLUDE MONTANA EMPLOYERS, THE STATE GOVERNMENTS OF NORTH DAKOTA, SOUTH DAKOTA, WYOMING, IDAHO, AND WASHINGTON AS A BASE; MONTANA EMPLOYERS WITH FEWER THAN 25 EMPLOYEES SHOULD ALSO BE INCLUDED IN FUTURE SURVEYS; THE DEPARTMENT OF ADMINISTRATION SHOULD BEGIN**

TO TRACK WHERE STATE EMPLOYEES ARE RECRUITED FROM AND GOING TO WHEN LEAVING STATE SERVICE; AND, THE DEPARTMENT OF ADMINISTRATION SHOULD ALSO USE THIRD-PARTY SALARY SURVEY DATA. (Adopted unanimously on November 6, 1990.)

LEGISLATION REQUIRED: None recommended.

NOTES

1. E. James Brennan, "Everything You Need To Know About Salary Ranges," Personnel Journal, March 1984, p. 10.

2. See, Elements of Sound Base Pay Administration, Section II; Milkovich and Newman, Compensation, 2nd Ed. (San Diego Calif.: Business Publications), 1987, Ch. 7.; and Charles H. Fay and Marc J. Wallace, Jr., Compensation Theory and Practice (Boston Mass: PWS-Kent Publishing Co.) 1988.

3. Milkovich and Newman, Compensation, Ch. 7, p. 256.

4. A summary of testimony may be found in the Committee's minutes, February 8, 1990. To review the Committee's correspondence and testimony given at Committee meetings and the public hearings, contact the Montana Legislative Council.

5. See, Montana Legislative Council and Montana Department of Administration, "State of Montana Employee Compensation: Results of Survey of Employees, Managers, and Union Representatives," April 1980, for a comprehensive presentation of graphs and charts illustrating the survey results. See also, Montana Legislative Council, "Summary Analysis: Problem Identification Survey Results," April 1990, for a narrative overview and analysis of the survey data.

6. See Appendix A for selected graphs from the survey illustrating these findings.

7. For a more detailed explanation of the pay exception process see, Department of Administration, Personnel Division, "A Program to Address Recruitment and Retention Problems Caused by External Labor Market Conditions," September 22, 1989. See also, Montana Legislative Council, "State Employee Compensation and Related Issues," prepared by Lois Menzies, October 1989, for the Committee on State Employee Compensation.

8. Montana Department of Administration, Personnel Division, "Summary of State Turnover for the Period of July 1, 1989 through June 30, 1990," prepared in October 1990 for the Committee on State Employee Compensation.

9. See, The Waters Consulting Group, Inc., Issues and Recommendations, June 1990, pp. 1-2 and 1-3.

10. See, The Waters Consulting Group, Inc., Issues and Recommendations, June 1990, Chapter 4.

11. See, Montana Department of Administration, Personnel Division, "Play Plan Options," June 1990, for an analysis of advantages and disadvantages of spending money on longevity or on maintaining competitive salaries.

12. See, Committee on State Employee Compensation, Minutes, June 29, 1990, p. 20.

13. See, Committee on State Employee Compensation, Minutes, June 31, 1990, pp. 15-20.

14. See, Sec. 14, Chap. 660, Title 2, L. 1989

15. See, Committee on State Employee Compensation, Minutes, October 17 and 18, 1990.

16. See Montana Legislative Council, "Issues Checklist Phase Five: Market Survey Data, Pay Increases, Shift Differentials, and Hazardous Duty Pay," prepared by Sheri Heffelfinger, November 1990.

CHAPTER 3

PAY PLAN STRUCTURE: STEPS OR AN OPEN RANGE?

BACKGROUND

The Committee focused its study on the statewide pay plan, voting not to spend limited time and resources on a review of the blue collar, liquor store, or teachers' pay plans. (Please see Chapter 9, Separate Pay Plans, Union Proposals, and Excepted Employees, for a discussion of this decision.) This chapter addresses the development of the pay ranges for each grade in the statewide pay plan, overlap between the pay ranges, and the type of pay structure that best serves the market-based policy goals outlined by the Committee in Chapter 2.

Range Spread

A pay range represents a set of salaries ranging from the minimum salary necessary to attract qualified employees to the maximum salary that a job in the grade is worth to the employer.¹ According to accepted compensation practices, "the maximums and minimums (the range width or spread) are usually based on what other employers are doing, the size of the ranges identified in the survey data, and some judgement about how the ranges fit the organization."² Usually, managerial and professional positions corresponding to higher grades have a wider range spread between entry-level and maximum salaries, while lower grades have narrower range spreads. One compensation consultant explains: "From an internal consistency perspective, the range established for any job should approximate the range of performance or experience differences that an employer wishes to recognize."³

Overlap Between Grades

How much a grade's pay range overlaps the grade range of the grade just above or below it is determined by an organization's pay philosophy and job evaluation method. Pay ranges may have little or no overlap, moderate overlap, or substantial overlap. Pay compression problems can result from too much overlap, in which case subordinates may earn more money than their supervisors. However, no overlap between pay ranges may cause pay inequity between grades in the pay structure by creating artificial entry-level or maximum salaries.⁴

Midpoint Progression

The percent of difference between the midpoint salaries of one grade and the midpoint of the next higher grade is called the midpoint progression. A "smooth" midpoint progression helps maintain equity between grades in the pay structure. The percent of progression is influenced by salary survey data and the organization's job evaluation method. The Waters Consulting Group, Inc. (TWCG) provides the following general guidelines, in Figure 8, showing typical midpoint progressions for employee groups:⁵

Figure 8
Midpoint Progression Differences

Major Group	Low	Average	High
Nonexempt	2-3.5%	5-7.5%	8-10%
Exempt	5-6%	7-9%	10-12%
Senior Management	8%	10-25%	30-50%

Source: The Waters Consulting Group, Dallas, Texas

Progressions Through the Pay Structure: Step Plans v. Open Range Plans

Employees may progress through the pay ranges according to fixed increments (steps), or through administrative rules that leave the range "open" and without fixed progression increments. An organization may, however, determine to have no pay ranges, in which case the pay structure will have a single rate or salary for each grade. Montana's current statewide pay plan is a 13-step plan with approximately a 2% differential between each step (although it varies from about 7% between step 1 and step 2 to about 3.5% between step 12 and step 13). The teachers' pay plans are also multiple-step pay structures. The state's blue collar plan, on the other hand, is a single-rate pay plan with one pay rate for each grade.

SUMMARY OF FINDINGS

Addressing the structural issues of the statewide plan, the Committee evaluated the testimony and correspondence of employees and managers, examined the consultant's findings and recommendations, explored the pay structures of 12 states in the region, and considered six pay plan options for the statewide plan.

Testimony and Correspondence

Approximately 29.5% of the comments from managers, employees, and union representatives directly expressed dissatisfaction with some aspect of the state's 13-step pay structure. The following paraphrase the sentiments expressed:

- The steps should be eliminated because they are unfair and the freezes have caused inequities.

- There should be fewer steps and more grades. *
- The state should fix the inequities and pay compression caused by step freezes.
- The state should have one pay plan versus several.
- The state should develop separate pay plans for law enforcement, engineers, nurses and health care workers, and professional and managerial employees.

Other States

The Montana Legislative Council staff prepared a research report on the pay plans of the 12 states included in the Department of Administration's 1990 salary survey. This report was presented to the Committee in June 1990. A summary of the report's findings shows that:

- Seven states have step plans: Colorado, Nevada, Minnesota, Oregon, Idaho, Washington, and New Mexico. (New Mexico had an open range pay plan but is expected to adopt a step plan in September 1990.)
- Five states have open range pay plans: North Dakota, South Dakota, Arizona, Wyoming, and Utah.
- Two of the 12 states engage in collective bargaining: Minnesota and Oregon. These two states have separate pay plans for each collective bargaining unit.

* Please note that the number of grades in a pay plan is determined, in part, through the job evaluation process. See Chapter 2, Job Evaluation, for a discussion of the state's job evaluation methodology.

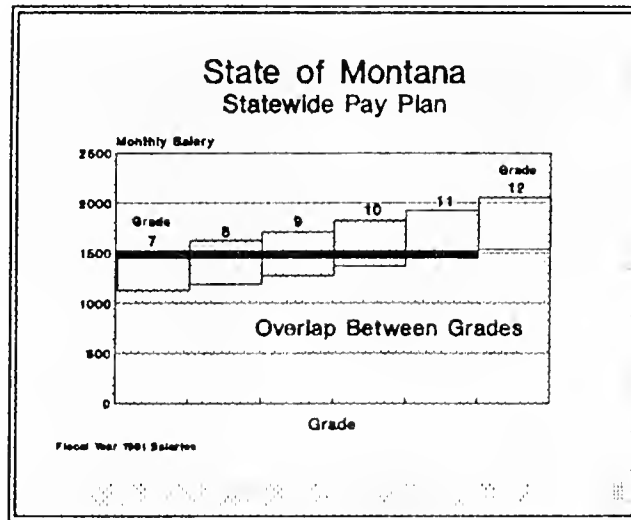
- Five of the 12 states have only one statewide pay plan; two states have two plans; and five states, including Minnesota and Oregon, have four or more pay plans.⁶

The Consultant's Findings

The Waters Consulting Group, Inc. reviewed the statewide pay plan and outlined the following findings and recommendations in its May and June 1990 reports to the Committee:

- Midpoint Progression: Equity between each grade's pay range, expressed as the midpoint progression, is not consistent across all pay grades in the statewide pay plan.
- Range Spread: The range spreads for grades in the statewide pay plan are, by design, wider in the lower grades and narrower in the higher grades. This design runs counter to generally accepted compensation practices. The narrow range spread for the higher grades creates individual pay inequities and does not allow sufficient movement from the minimum to maximum salary for employees in grade 9 and above.⁷
- Range Overlap: Range overlap is substantial in the statewide pay plan. The existing 5-grade overlap is acceptable, according to TWCG, but not desirable because employees working in jobs classified five grades apart may be receiving the same salary. Figure 9 illustrates the overlap between grades in Montana's current pay plan.

Figure 9
Overlap Between Pay Grades



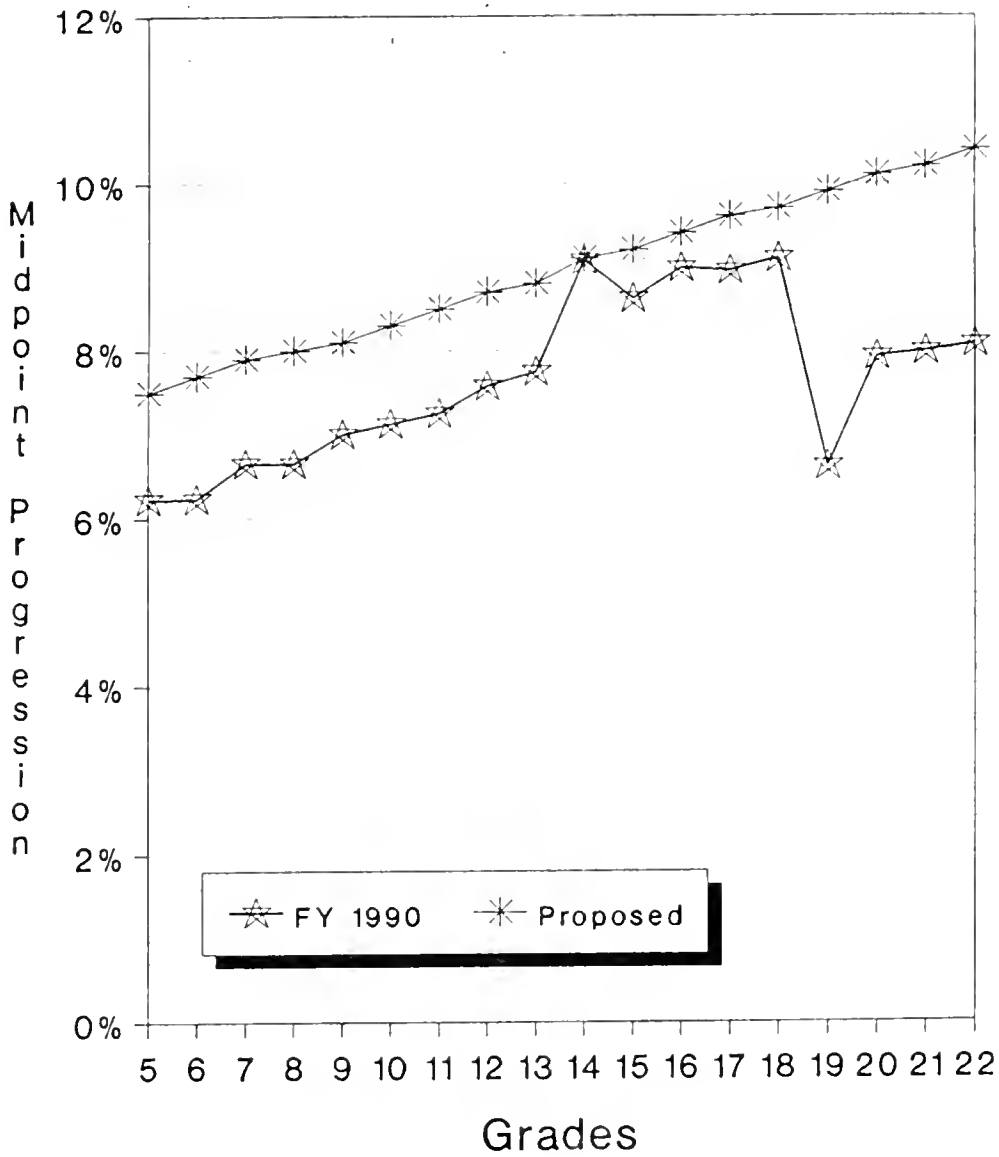
Source: The Waters Consulting Group, Dallas, Texas

The Consultant's Recommendations

The following recommendations offered by TWCG are based on the Department of Administration's 1990 salary survey data and the norms of compensation practice:

- Midpoint Progression: Adjust the pay structure to have a 7.03% midpoint progression at the lower grades, increasing the progression to 10.74% at the higher grades, as illustrated in Figure 10.⁸

Figure 10
Statewide Pay Plan
Current Versus Proposed Midpoint Progressions

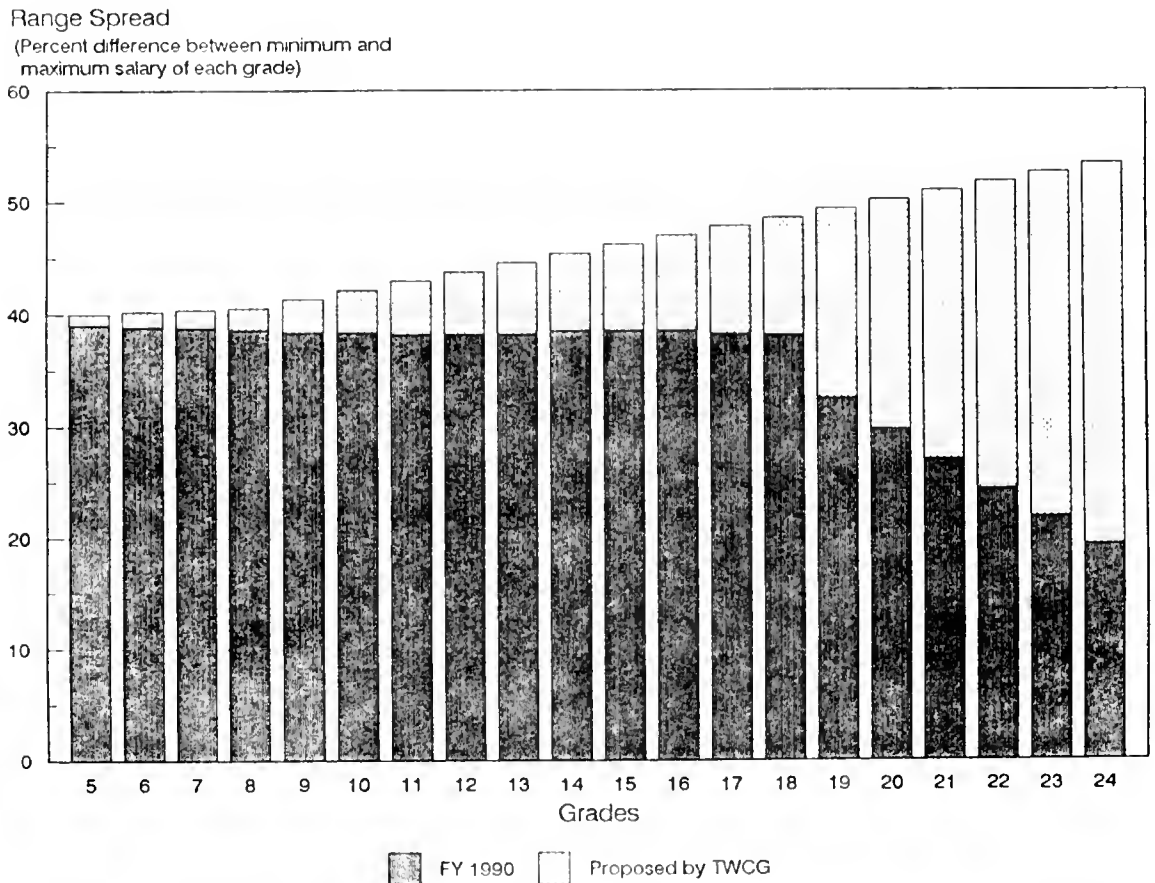


Source: The Waters Consulting Group, Dallas, Texas

- Range Spread: Adjust the range spreads in the statewide pay plan to 40% at the lower grades up to 53.4% at the higher grades, as illustrated in Figure 11.⁹

Figure 11

The Range Spread for Each Grade in the
Current Plan Compared With the Proposed
Range Spread for Each Grade in the New Plan



Source: The Waters Consulting Group, Dallas, Texas

- Range Overlap: TWCG made no specific recommendations about the overlap of the pay ranges in the statewide plan because this factor is determined, in part, by the number of grades and the width of the pay ranges for each grade in the pay plan.
- Two pay plans: TWCG recommend two pay plans to cover all state employees, one plan for Fair Labor Standards Act (FLSA) exempt employees and one for non-exempt employees. (See consultant's recommendations in Chapter 2, Job Evaluation and Classification.)
- Step Plan v. Open Range Plan: The consultant made no recommendation regarding whether the state should stay with the step plan or adopt an open range pay plan for one or both of TWCG's recommended pay plans.

Committee Action

The Committee agreed that, based on generally accepted compensation practices, the state should adopt TWCG's recommendations regarding midpoint progression and range spread in the design of employee pay ranges. Thus, all pay plan options discussed below include a 7.03% to 10.74% midpoint progression and a 40% to 53.4% range spread.

ISSUES AND OPTIONS

A State Personnel Division June 1990 paper, "Pay Plan Options," provided the basis for the Committee's consideration of alternatives to the 13-step statewide pay plan. The paper also presented the relative strengths and weaknesses of six different pay plan options (all variations of the step and open range structures).

ISSUE: Should the state change from a 13-step pay structure? If so, what alternative structure should be adopted to allow the state to work toward a

market-based competitive pay structure in the most efficient and equitable manner?

Options

The following is a list of pay plan options considered by the Committee. (For an analysis of each of the plan's strengths and weaknesses, see the Personnel Division's paper, which is on file at the Montana Legislative Council.)

- A. A multiple step plan.
- B. Single rate (or single step) plan like the state's blue collar pay plan.
- C. Graduated steps to a journey rate (such as the state's liquor store pay plan) and designed to represent different learning curves for different types of jobs.
- D. Open range plan with an entry, midpoint, and maximum salary but no established steps. Progression would be based on administrative rules rather than fixed increments such as steps.
- E. Combined step and open range plan designed with steps up to the pay range midpoint or going rate.
- F. Two pay plans. Any two plans of the previously listed options or two of the same type of plan.

Recommendation of the State Personnel Division

During the June 29, 1990 meeting, staff presented the Personnel Division's recommendation that the Committee select Option C, the graduated step to

journey level plan, or Option E, the combined step and open range pay plan for further study. Staff explained that:

- The Personnel Division believes the 13-step structure of the statewide pay plan should be replaced.
- Any new pay structure should allow the state to work toward the Committee's market-based pay philosophy.
- Pay adjustments to meet the market goal should have priority over rewards for longevity.
- The pay ranges of the structure should reflect a learning curve and the range spread should be narrower in the lower grades and wider in the higher grades, as recommended by the consultant and generally accepted compensation practices.
- The structure should allow some flexibility regarding the hiring rate in occupations with a special market, or a hiring rate that recognizes experience, education, or expertise.
- The structure should allow flexibility to pay employees a performance-based bonus apart from employees' base salaries, but not until a sound performance appraisal system is in place.
- The state must be able to equitably and efficiently convert from the 13-step plan to the new plan.¹⁰

Committee Discussion, June 1990

The Committee voted to further develop Option C (the graduated step to journey level plan), and Option E (the combined step and open range plan) to include a single step plan for the lower grades with an open range for the

higher grades. The Committee instructed the staff to explore an implementation strategy for a transition to one of the new plans and to estimate the associated costs of the transition.¹¹

Committee Discussion, July 1990

The Committee reconvened on July 31, 1990, and explored the advantages, problems, and costs associated with the selected pay plan options. The staff's development of each option selected by the Committee in June included the following assumptions:

- (1) The journey-level rate or range midpoint would be set at 10% below the 12-state market survey line as decided by the Committee in June.
- (2) In the second year of the biennium, the midpoint salaries of each grade, and therefore the pay ranges, would be increased 4% in anticipation that average salaries in the market place would increase by 3% in 1991. The additional 1% would provide a "catch-up" from the initial 10% lag pay policy line toward the 5% lag.
- (3) The range spread for each grade would generally follow the consultant's recommended midpoint progression and range spreads (except for the single-rate plan, which would have no ranges).

The Committee staff explained that the Personnel Division had difficulty designing a structure to provide an efficient and equitable transition from the current 13-step plan to a new plan. The difficulties arose for two reasons: (1) most employee salaries at present are significantly below the market; and (2) the distribution of employee salaries is compressed through the pay ranges. The following is a discussion of each pay plan option considered by

the Committee, and the Personnel Division's recommendation for an open range pay plan.

Graduated Step to Journey Level Plan or Graduated Steps to an Open Range

- Pay increases designed to move employees to a graduated step plan would be arbitrary and inequitable.

Some employees would get no pay increase as a result of the movement while other employees would get a 6% increase or more because the only criteria for the increase would be how far the employees are from the next highest corresponding step in the new plan.

- Funding a graduated step plan would compromise market adjustments.

More than 50% of the employees in the current statewide pay plan are at step 3 or below. Thus, to move these employees into the new pay ranges and then give everyone a step increase would cost \$55 million to \$60 million for the biennium, not including a 4% market raise and adjustment to the schedule in the second year.

- Transition to a graduated step plan would not put money in the grades where it is most needed.

The salary survey showed that some grades are further behind the market than others. In the graduated step plan, some employees in grades closer to the market would get the same increase as those employees in grades furthest behind the market. Funding steps in the new pay plan and keeping pace with the market would be difficult.

- It would take several years to equitably make the transition to a graduated step plan.

To accomplish this transition as equitably as possible by giving comparable pay increases to all employees, many employees would end up with salaries between steps. Thus, it would take several years before the salaries of employees in the statewide plan would correspond to a step in the new pay schedule.¹²

Single Step Plan for lower grades with an Open Range Plan for higher grades

- Costly and impractical.

The State Personnel Division estimated that, as a one-time adjustment, to move employees in grades 1 through 12 alone to the adjusted market rate (90% of the 12-state market survey line), and to give a 2.5% increase to employees who are above that rate in those grades, the state would have to spend \$45 million for the biennium. Pay increases would average 12.8% in grades 1 through 12. No cost estimate was developed for an open range for grades 13 and above.

The Open Range Alternative

- Competitiveness maintained.

The Personnel Division found that the open range plan would allow the state to keep the pay schedule competitive with the market as well as provide for equitable individual progression through the ranges. The step plans, on the other hand, would commit the state to funding steps at the likely expense of the market increases and adjustments. Steps could also be frozen again and the statewide pay plan could encounter the same

pay compression problems that the state is currently experiencing.

- Individual increases more equitable.

In the open range pay plan, individual pay increases may be based on administrative rules addressing both the internal pay compression problems and external market competitiveness.

- Flexible with changes in funding.

Unlike a step plan, an open range plan is flexible enough to allow for varying levels of funding from year to year. Costs for the open range pay plan would vary depending on the amount of money spent for the market adjustment and the amount spent for the progression of individual employees within the pay ranges.¹³

Following a review of the points outlined above, the Committee voted unanimously to recommend an Open Range Plan.

CONCLUSION AND FINAL RECOMMENDATION

The Committee concluded that: (1) the credibility of the state's current step plan has been irreparably damaged by the step freezes and the potential threat of future step freezes; (2) the step plan is too rigid to allow for an equitable transition to a market-based pay plan; and (3) an open range plan provides the flexibility to base employee pay on the market as well as progress employees through the pay ranges to correct the pay compression in the current plan and provide larger increases to employees furthest behind the market. (See Chapter 5, Individual Pay Increases, for a discussion of general and progression pay increases.) Therefore, the Committee on State

Employee Compensation unanimously agreed to the following recommendation:

- **RECOMMENDATION: THE STATEWIDE PAY PLAN SHOULD BE CHANGED FROM A STEP PLAN TO AN OPEN RANGE PLAN WHICH HAS NO FIXED STEPS BETWEEN ENTRY-LEVEL SALARIES AND THE MAXIMUM SALARIES FOR EACH GRADE.**

LEGISLATION REQUIRED: The Committee's recommendations on the pay structure and progression through the ranges are included in Sections 4 and 7 of the sample bill at Appendix A.

NOTES

1. See, E. James Brennan, "Everything You Need to Know About Salary Ranges," Personnel Journal, March 1984, pp. 10-16, for a discussion of compensation practices and salary ranges.
2. Milkovich and Newman, Compensation, p. 255.
3. Ibid., p. 253.
4. Marc J. Wallace, Jr. and Charles H. Fay, Compensation Theory and Practice, (Boston, Mass.: PWS-Kent Publishing Company, 1988) p. 220.
5. The Water's Consulting Group, Issues and Recommendations, June 1990, p. 6-13.
6. Montana Legislative Council, "The Direct Compensation Plans of Twelve Other States," June 1990, by Sheri S. Heffelfinger.
7. Ibid., pp. 6-17 and 6-18.
8. The Waters Consulting Group, Inc., Preliminary Audit Results, May 1990, p. 4-5; and Issues and Recommendations, June 1990, p. 6-16.
9. Ibid., Preliminary Audit, p. 4-8 and Recommendations, p. 6-20.
10. See, Committee on State Employee Compensation, Minutes, June 29, 1990, pp. 12-13.
11. Ibid., pp. 21-23.
12. See, Committee on State Employee Compensation, Minutes, July 31, 1990, pp. 3-10.
13. Ibid.

CHAPTER 4

INDIVIDUAL PAY INCREASES

BACKGROUND

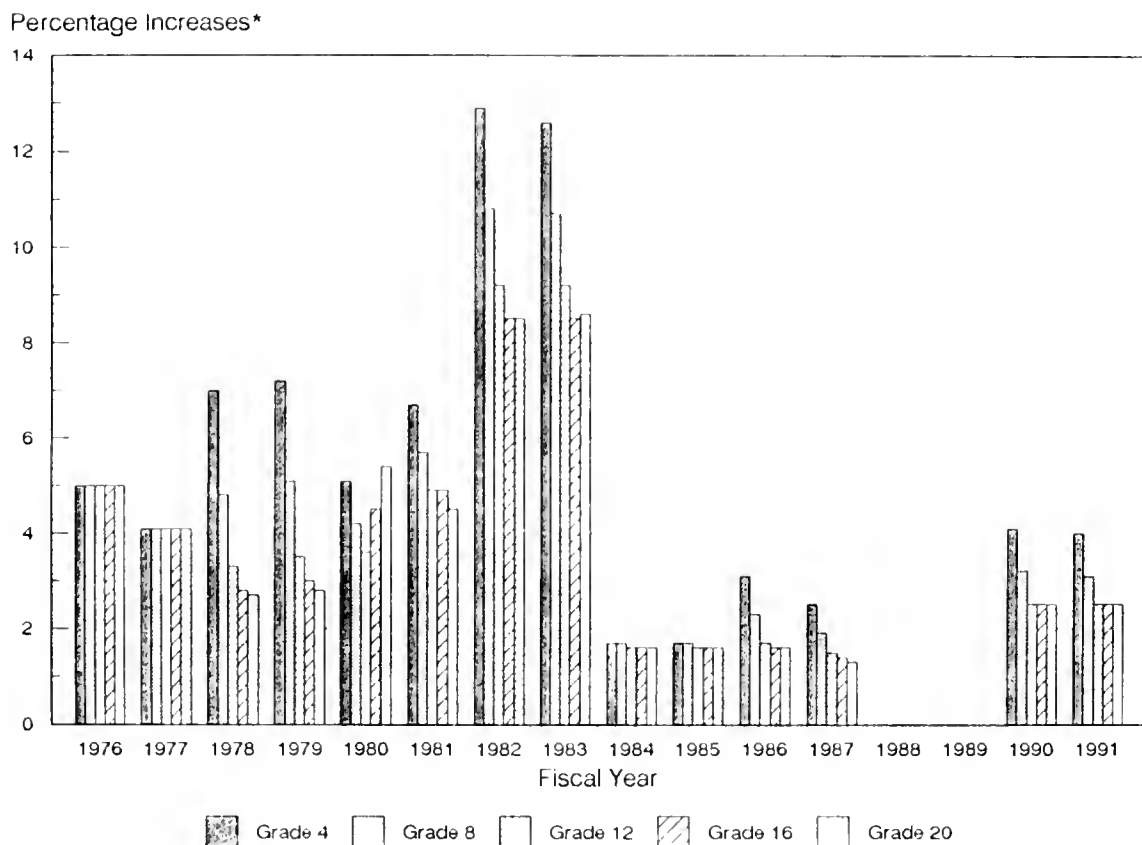
The discussion in this chapter closely follows the findings and recommendations outlined in previous chapters. Chapter 2 discusses the Committee's review of job evaluation and classification, which is how pay equity for positions within an organization is achieved. Chapter 3 describes the Committee's study of the state's pay ranges for each grade compared with the salaries other employers pay. This chapter reviews the Committee's work regarding employee salaries and the equity of individual pay increases. The two primary components of individual pay outlined in this chapter are (1) general increases and (2) progression increases.

A general or across-the-board increase is paid to all employees regardless of longevity or performance. A progression increase moves individual employees from entry level through the pay range of the employee's assigned grade.

The State's Past Pay Practices

General pay increases in the past have not been uniform nor have they followed a standard policy. The Legislature has usually adopted pay schedules reflecting negotiated union settlements and granted individual pay increases for all employees that correspond to the pay schedule adjustments. Furthermore, the form of these increases has varied from percentage increases to flat dollar amounts to combinations of both. The form and amount of the increases have also varied according to each grade and step. Figure 12 illustrates how this pay practice has affected selected grades.¹

Figure 12
Percentage Increases* in Salaries for Selected Grades
(Fiscal Years 1976 - 1991)



* Excludes step increases and increases in the employer contribution rate for group benefits

Source: Department of Administration, Personnel Division, "House Select Committee on Employee Compensation: Background on Classification and Pay Issues," February 28, 1989, p. 4.

Since the state's enactment of a uniform pay plan in 1975 to the present, individual progression increases have been determined by length of service. Following successful completion of a 6-month probationary period and a corresponding salary increase from step 1 to step 2, employees who perform satisfactorily earn a one-step increase (approximately 2%) for each year of

service. Step increases for employees in the statewide pay plan have been frozen in all but one year since FY 1986 (July 1, 1985).

SUMMARY OF FINDINGS

The findings summarized in this section are the product of numerous studies and Committee deliberations. Sources include testimony and correspondence to the Committee, the Problem Identification Survey, the state's January 1990 salary survey, the consultant's report, and staff studies and presentations.

Testimony and Correspondence

Nearly all the testimony and correspondence received prior to the Committee's October 1990 hearing identified the state's pay increases as inadequate.

- Approximately 33% of the testimony and correspondence specifically emphasized dissatisfaction with the state's general pay increases;
- About 37% stated that employee salaries should be more competitive with other salaries for similar jobs in the market; and
- Approximately 27% of the comments pointed to the inequities and discontent generated by the step freezes or the lack of meaningful longevity pay.

Taken together, these comments account for close to 100% of all public comment on the state's current pay plan.*

* This data for the testimony and correspondence was calculated using the Personnel Division's matrix summarizing and categorizing public comment for the Committee.

Problem Identification Survey

The attitude survey of state employees, managers and union representatives showed that the clear majority of the respondents are more dissatisfied with the state's general pay increases and the lack of step increases than any other compensation factor. (See Appendix D for graph illustrating these findings.) The attitude survey measured the degree of satisfaction on a scale of 1, "very satisfied", to 5, "not at all satisfied".

- Of the surveyed employees, 70.6% were not at all satisfied with the general pay increases; 66.8% were not at all satisfied with the step increases rewarding years of service.
- Of the surveyed managers, 79.9% were not at all satisfied with the general increases; 54.5% were not at all satisfied with the step increases. Managers were asked to rate these factors by effect on recruitment and retention.
- Of the surveyed union representatives, 61.1% were not at all satisfied with the general increases; 22.2% were not at all satisfied with the step increases. Union representatives were asked to rate these factors based on their estimate of how employees represented by a union felt about the factors.²

Staff Report: Pay Plan Exceptions

The state has recently seen a dramatic 133% increase in pay plan exception requests to address recruitment and retention difficulties. This increase indicates that general pay increases have not been adequate to maintain competitive salaries and contributes significantly to pay compression within the structure where supervisors are earning lower salaries than new employees.³

Staff Report: Distribution of Employees in the Statewide Plan

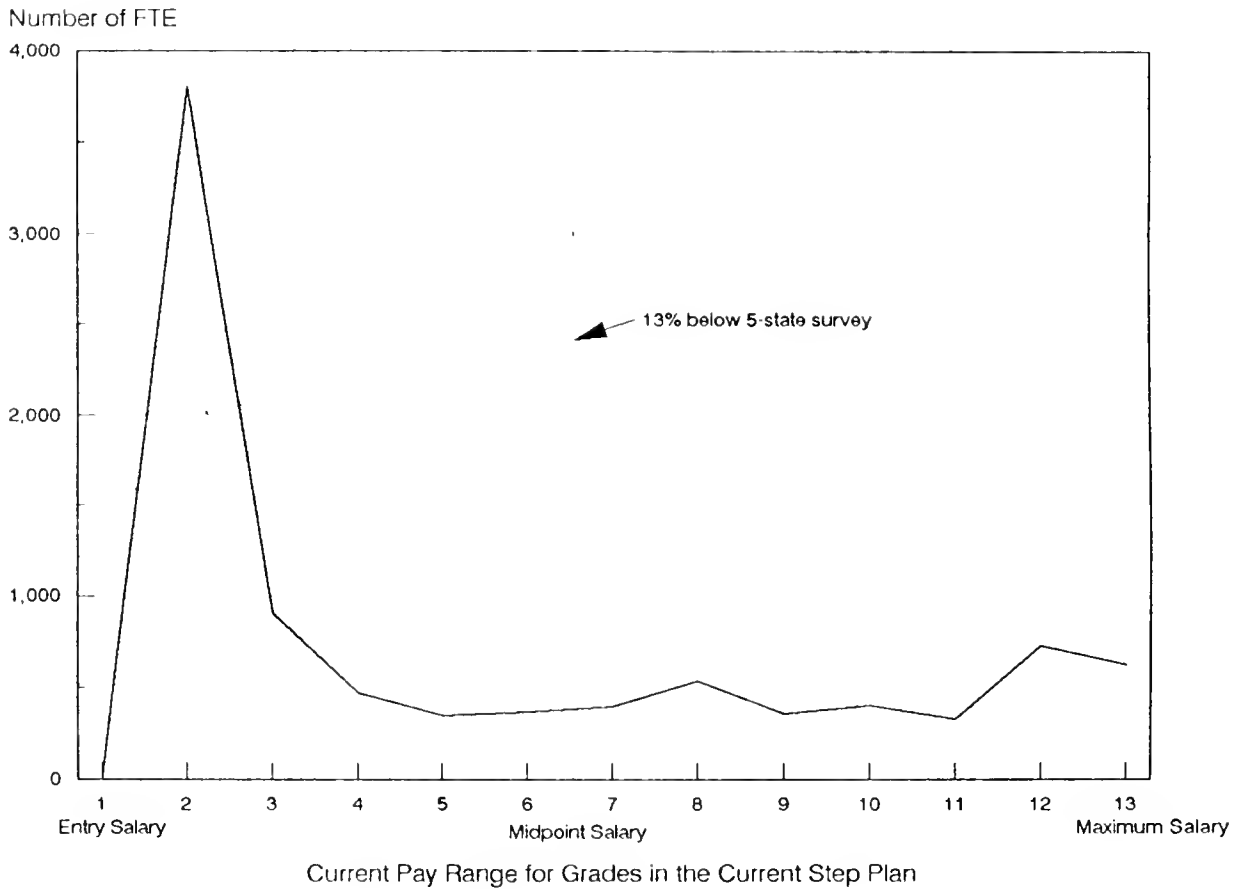
How state employees are currently distributed through the statewide pay plan influences the effectiveness of potential solutions to the pay problems identified in this chapter. The Personnel Division reported that:

- More than 50% of state employees are at step 3 or below. Furthermore, the approximate midpoint of the current pay ranges (step 6.5) is 13% below the average salaries paid by other Montana employers and the state governments of North Dakota, South Dakota, Wyoming, Idaho, and Washington. (See Figure 13.)
- According to accepted compensation practice, the goal of the pay plan is to evenly distribute employees near the midpoint of the pay ranges. The Committee recommended in Chapter 3 that the midpoint of the pay ranges should match average salaries found in the market. The preferred distribution of employees in a market-based pay range is illustrated in Figure 14.

Staff Report: Pay Increases in Other States

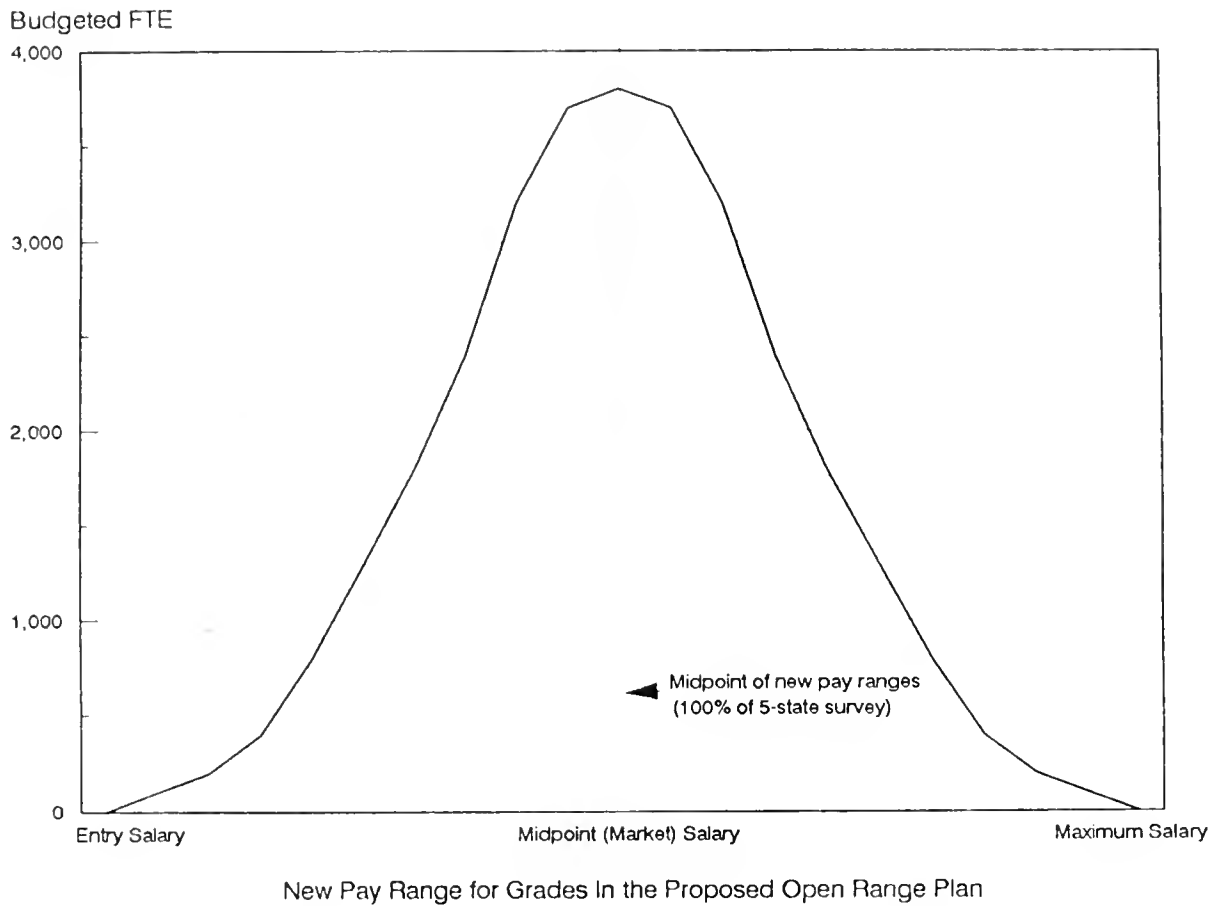
The Montana Legislative Council staff compared the pay plans of the 12 states that Montana included in its January 1990 salary and benefits survey.⁴ Figure 15 shows the average general increases paid to state employees in each of the 12 states. Figures 16 and 17 compare each state's general market increases given to its employees each year.

Figure 13
Distribution of FTE by Step
Statewide Plan - FY 91



Source: Montana Department of Administration, State Personnel Division

Figure 14
Desired Distribution of FTE
in State Pay Plan



Source: Montana Department of Administration, State Personnel Division

Figure 15
Average General Salary Increases: FY 1985 to FY 1990 *

STATES	1985	1986	1987	1988	1989	1990	Total FY 85-90
STEP PLANS							
MONTANA	1.6%	2.0%	1.7%	0.0%	0.0%	2.9%	8.2%
Colorado	4.2%	4.3%	1.1%	0.0%	3.8%	2.2%	15.6%
Nevada (1)	11.0%	5.0%	3.0%	3.0%	5.0%	5.0%	32.0%
Minnesota	4.0%	4.0%	3.0%	3.0%	5.0%	5.0%	24.0%
Oregon (2)	5.0%	3.0%	2.0%	2.0%	4.5%	0.0%	16.5%
Washington	8.4%	2.5%	2.7%	3.0%	2.5%	6.0%	25.1%
OPEN RANGES							
Idaho (3)	7.0%	0.0%	0.0%	4.0%	3.0%	5.0%	19.0%
New Mexico (4)	2.0%	5.0%	1.0%	4.0%	4.0%	3.0%	19.0%
North Dakota	5.5%	4.0%	0.0%	0.0%	7.1%	0.0%	16.6%
South Dakota	4.0%	4.0%	4.0%	3.0%	2.75%	4.5%	22.25%
Arizona (5)	5.0%	4.0%	4.5%	3.5%	0.0%	4.5%	21.5%
Wyoming (6)	2.5%	0.0%	0.0%	----	2.7%	3.0%	8.2%
Utah	3.0%	0.0%	0.0%	2.5%	2.0%	4.0%	11.5%

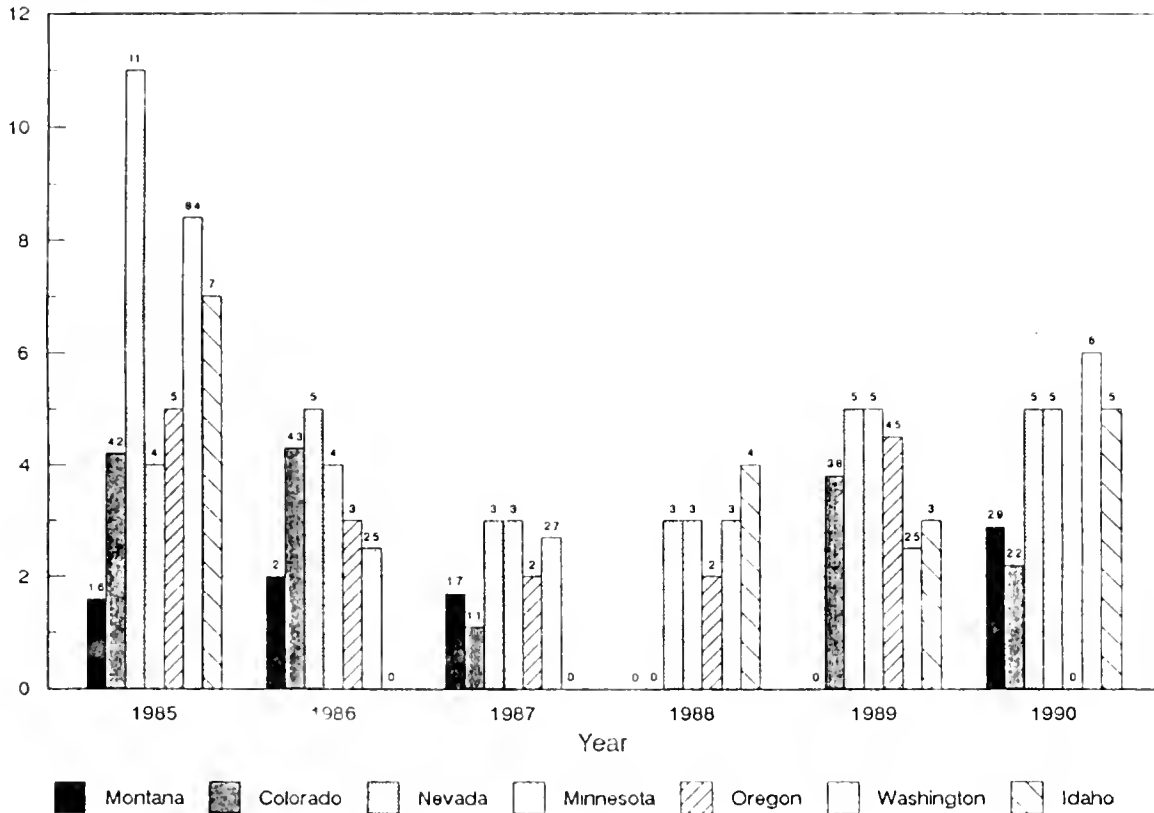
* The data were compiled from telephone interviews with a compensation analyst from each state in June 1990. Except for Idaho, the figures shown do not include step, longevity, or merit increases.

NOTES:

- (1) The 11% increase in 1985 was to compensate for the 1.5% increases in 1983 and 1984.
- (2) The 0% increase in 1990 coincides with Oregon's conversion to a point factoring classification system.
- (3) Steps are not funded separately in Idaho, so these increases represent step increases only. The 5% increase in 1990 represents money allocated to the "merit pool" of each agency.
- (4) New Mexico is changing to a step plan in Sept. 1990.
- (5) The 4.5% increase shown for 1987 consists of a 3% increase in January and a 1.5% increase in July.
- (6) Wyoming converted to an open-range plan in 1990. Step increases have been frozen since 1985. In 1988, employees received a flat \$550 increase. The 2.7% increase in 1989 is an average; state employees received a 5.4% increase for 4 years or more of service, a 2.7% increase for 2 to 3 years of service, and a 0.67% increase for less than 2 years of service.

Figure 16
Average General Salary Increases:
Montana Compared to States With Step Plans
(FY 1985 to FY 1990)

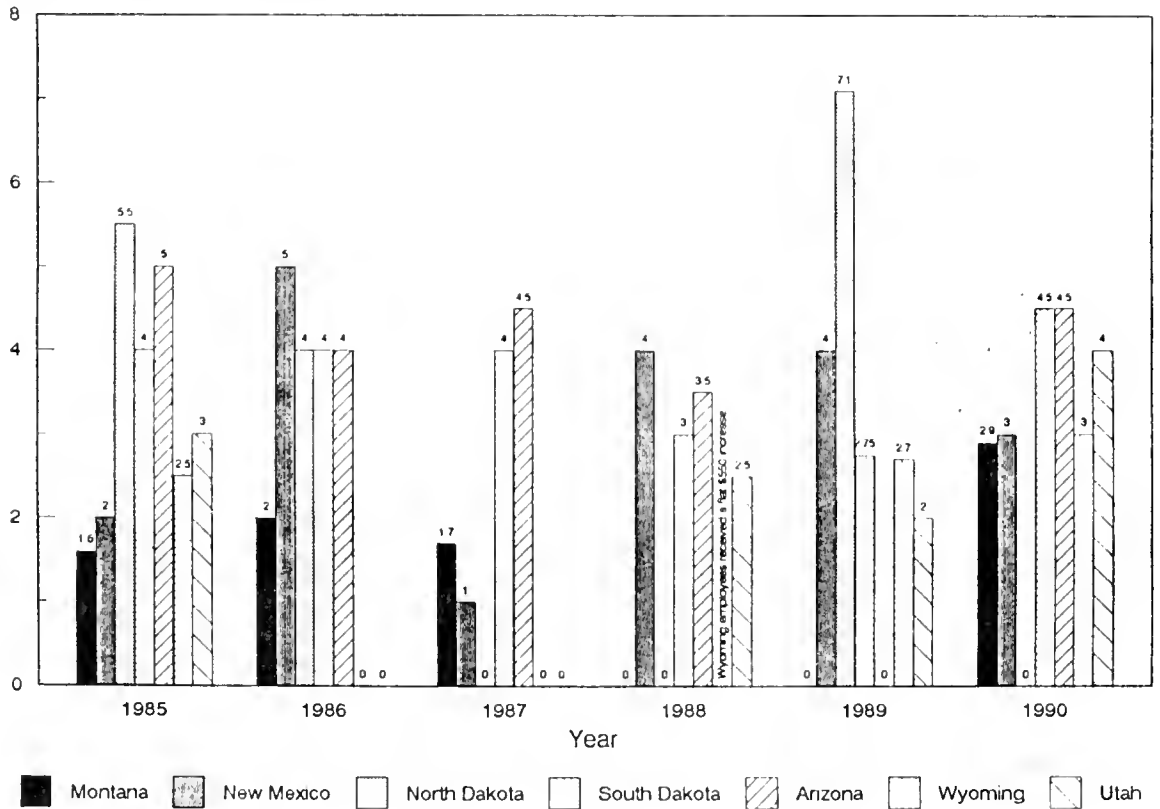
Salary Increases (in Percentages)



Source: Montana Legislative Council, "The Direct Compensation Plans of Twelve Other States," June 1990.

Figure 17
Average General Salary Increase
For States With Open Range Plans
(FY 1985 to FY 1990)

Salary Increases (in Percentages)



Source: Montana Legislative Council, "The Direct Compensation Plans of Twelve Other States," June 1990.

Besides Montana, only Wyoming and Idaho froze step increases between FY 1985 and FY 1990 for state employees. In 1988, Wyoming converted to two open range pay plans separating FLSA exempt and non-exempt employees as recommended to Wyoming by TWCG.

Progression increases in the five states with open range plans (North Dakota, South Dakota, Arizona, Wyoming and Utah) have varied from year to year depending on the amount of increase approved by their legislatures.

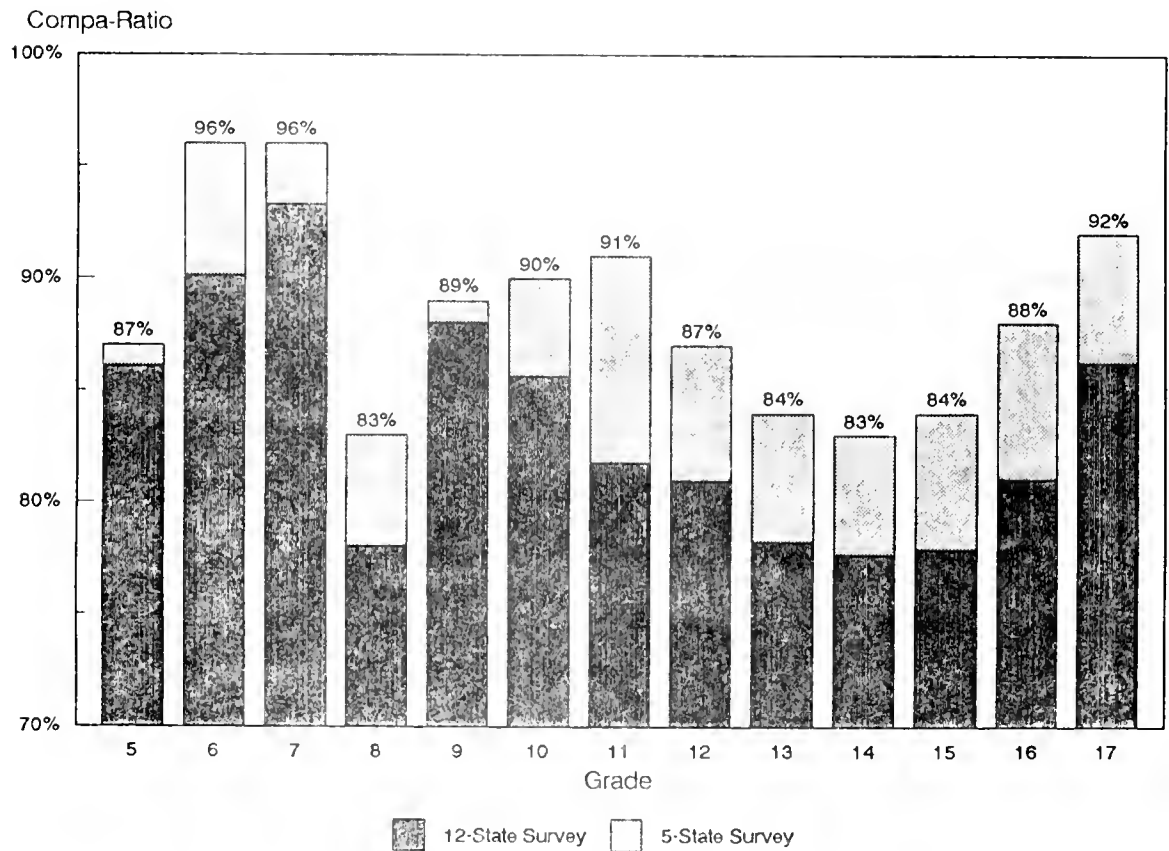
The Consultant's Findings

Based on the 1990 salary survey data collected by the Department of Administration, TWCG found that the actual salaries of Montana state employees are, on average, 18.6% below the average salaries in the 12-state surveyed market. The surveyed market included Montana employers and 12 state governments: North Dakota, South Dakota, Idaho, Wyoming, Oregon, Washington, Minnesota, Colorado, Utah, Nevada, Arizona, and New Mexico. The actual salaries for Montana state employees are 12.7% below the average salaries paid by other Montana employers and the state governments of North Dakota, South Dakota, Wyoming, Idaho and Washington. (See Chapter 2 for a discussion of the Committee's decision to limit the salary survey data to Montana, the four contiguous states, and Washington.)

Figure 18 shows the average compa-ratio* (percent of the market) of each grade in Montana's statewide pay plan, excluding classified university system employees. The ratios are based on the 12-state and 5-state surveys.⁵

* The compa-ratio of a grade represents the average salary for the grade in the Montana state pay schedule divided by the average salary found in the market survey of jobs in that grade. If the result is converted to a percent, that result shows what percent of the market the average salary for a Montana state employee in that grade represents.

Figure 18
Compa-Ratios:
Average Salaries of Montana's State Employees
as a Percentage of the Average Salaries
in the 12-State and 5-State Market Surveys



Source: Montana Department of Administration January 1990 salary survey.

The Waters Consulting Group, Inc. also found that:

- Different pay increases for various grades, with the lower grades generally receiving higher pay increases than higher grades, has contributed to pay compression in the statewide plan.

- Flat dollar increases, and a combination flat dollar and percentage increases, have resulted in some employees receiving relatively lower increases than others. Again, the lower increases have traditionally gone to the professional and managerial job classes in the higher grades.
- Negotiated settlements for represented union employees has been the overriding consideration in determining pay increases for all employees. TWCG states in the final report that:

"We are in support of the collective bargaining process in Montana as a contributing factor in formalizing compensation strategies by those positions under contract. We do not support the process as the sole contributing factor for establishing pay strategies for all state employees. It is an easy way out of a complex planning process and will lead to the disarray found in the current Statewide system."⁶

Regarding the state's step increases for employee progression through the pay ranges, TWCG found that:

- Length of service has been the state's only criteria for employee progression through the pay range. This policy does not motivate employees nor does it recognize quality performance. Rather it fosters an "I'm entitled to it" rationale rather than an "I earned it" sentiment.
- The credibility of step increases to reward longevity has been violated by the step freezes and by pay plan exceptions that allow new employees to be hired at salaries higher than senior employees who have been frozen in step.⁷

The Consultant's Recommendations

The Waters Consulting Group, Inc. offered the following recommendations regarding employee salary increases:

- General across-the-board increases should be used only to correct major deficiencies in the pay plan because these increases "reward all employees the same regardless of longevity, performance, or job responsibilities."⁸
- Cost-of-living or general market-based adjustments should change only the pay ranges in the structure. Corresponding individual increases to an employee's base salary should be awarded according to individual performance or longevity.
- Beginning in July 1991, general increases should be based on an analysis of new survey data and new job evaluation techniques and granted according to grade and survey statistics.⁹
- The state should adopt a policy that rewards progression increases on the basis of performance, or a combination of performance and length of service.¹⁰

(Please see Chapter 5 of this report for a discussion of pay for performance issues and Chapter 6 for a review of longevity pay outside the pay plan.)

ISSUES AND OPTIONS

Individual pay is a two-part issue consisting of:

1. A general market-based pay increase for all employees.

This increase is given to employees across-the-board so that employee salaries keep pace with market adjustments to the pay ranges in the pay structure. In other words, if the pay range is adjusted upward by 4% to correspond with a 4% upward movement of salaries in the market, then employee salaries should, theoretically, also be adjusted upward by 4%.

2. A progression increase to move employees from entry level through the pay range.

This increase is necessary to move employees from entry-level upward through the pay range. Such progression is usually based on criteria applied to each individual employee such as years of service or performance.

Options

The options before the Committee regarding individual pay increases were (1) the amount of the general increase for all state employees, and (2) the amount of and criteria for determining individual progression increases.

The Committee considered its options on August 30, 1990, in view of the conditions affecting the statewide pay plan summarized below:

- The higher grades are further behind the market than the lower grades.
- Past pay practices have resulted in the uneven distribution of employees through the pay ranges; 50% of state employees are at or below step 3 in the current plan.
- Certain job classes, such as nurses, engineers, and scientists, are experiencing worse recruitment and retention problems than other occupations because of how far salaries for these job classes have lagged behind the rest of the market.
- Any pay increase recommendation would have to be defensible to the Executive and Legislative Branches in view of the state budget as well as to state employees in view of past pay freezes.

Committee Action: A Market-based Progression Increase

Early in the Committee's deliberations, members concurred that progression increases should be based on how far an employee's individual salary falls below the average market salary for his or her assigned grade, i.e., the increase should be based on an employee's *compa-ratio*. Such a market-based increase would be the most effective and quickest way to address the two major problems in the statewide pay plan.

- First, a market-based progression increase would address recruitment and retention problems by putting money into those job classes and grades furthest behind the market.
- Second, a market-based progression increase would address the uneven distribution of employees (relative to the midpoint of the pay structure) by accelerating employees significantly below the range midpoint toward the midpoint or market average.

The Committee noted, however, that the market-based progression increase is a short-term solution because an employee's progression through the plan will get smaller and smaller as his or her salary nears the midpoint or average market salary for the grade. Furthermore, this formula does not provide movement through the upper half of the pay range.

Committee Action

ISSUE 1: How much of a general increase should the Committee recommend for state employees in FY 1992 and FY 1993?

During the Committee's discussion, proponents of a 2.5% to 3% general pay increase each year of the biennium argued that previous salary survey data showed salaries moving an average of 3% a year, that salaries in Montana are moving less than 3%, and that most of the

money should be put into the progression increase rather than the general increase.

Committee members who were proponents of at least a 4% general across-the-board pay increase maintained that state employees were already behind the FY 1990 salary survey market average and would be even further behind by FY 1992. The 4% increase is necessary, members argued, to keep up with an estimated 3% movement in market wages and to begin closing the gap on the current lag in employee salaries and the average market salary.

ISSUE 2: What should the Committee recommend for the market-based progression increase?

Committee proponents of a 0.1% or a 0.15% progression increase for each percentage point that an employee's salary fell below the range midpoint (or market average), argued that a 0.1% or a 0.15% increase was a reasonable progression increase that adequately addressed the pay compression in the pay plan given the state's budget parameters.

Proponents of a larger progression increase, 0.25% for each percentage point that an employee's salary fell below the range midpoint, argued that it would take at least 15 years for an employee to get close to the midpoint with a 0.1% progression increase, while the average length of service for state employees is 7 years.

Split 4 to 3, the Committee voted to recommend a 4% general increase for all employees in the statewide plan and a 0.25% progression increase for every

percent that an employee's salary falls below the midpoint* of the pay range.¹¹

Computing the Total Pay Increase for Each Employee

The following is an example of how to calculate the total pay increase for an individual employee at FY 1991 grade 10, step 3, based on the Committee's recommendation for a 4% general increase plus a 0.25% progression increase:

STEP 1: Figure the amount of your general market increase by multiplying your base salary by 0.04. (*An employee's base salary does not include benefits, longevity, or insurance contributions.*)

Your Base Salary	\$17,083
General Market Adjustment	x 0.04

Amount of Market Increase	\$683

STEP 2: Figure how far the employee's current *base salary* is below the recommended midpoint salary, i.e., the average market salary for the employee's grade. The midpoint salary for each pay grade in the pay schedule is shown as the market salary in Figure 19.

* As discussed in Chapter 3, the Committee initially recommended that the midpoint of each pay range be set at 10% below the market average and increased to 5% below the market average within 5 years (i.e., by FY 1996). This recommendation was based on a market survey of 12 states. The Committee later dropped this market "lag" policy and recommended that midpoint salaries match the market average. Then, after reconsidering Montana's relevant labor market, the Committee chose to use the survey data from Montana and the state governments of North Dakota, South Dakota, Wyoming, Idaho, and Washington rather than for all 12 states. Thus, the computations for an employee's progression pay raise is based on the midpoint salary of each grade, which, according to the Committee's final recommendation, should match the market average of salaries in Montana, North Dakota, South Dakota, Wyoming, Idaho, and Washington.

Figure 19
Proposed Open Range Pay Schedule
FY 1992 and FY 1993

<u>Grade</u>	FY 92		FY 93	
	<u>Entry</u>	<u>Market</u>	<u>Entry</u>	<u>Market</u>
1	8,508	10,009	8,848	10,409
2	9,165	10,808	9,532	11,240
3	9,872	11,669	10,267	12,136
4	10,638	12,605	11,064	13,109
5	11,496	13,653	11,956	14,199
6	12,423	14,789	12,919	15,380
7	13,418	16,012	13,955	16,652
8	14,544	17,397	15,126	18,093
9	15,748	18,882	16,378	19,638
10	17,081	20,530	17,764	21,351
11	18,531	22,327	19,272	23,220
12	20,140	24,324	20,945	25,296
13	21,885	26,495	22,760	27,555
14	23,817	28,904	24,769	30,060
15	25,944	31,562	27,982	32,824
16	28,316	34,532	29,449	35,913
17	30,963	37,852	32,201	39,366
18	33,881	41,521	35,236	43,182
19	37,150	45,639	38,636	47,465
20	40,799	52,444	42,430	52,254
21	44,853	55,374	46,647	57,589
22	49,381	61,115	51,356	63,559
23	54,489	67,604	56,669	70,308
24	60,224	74,905	62,633	77,901
25	66,570	83,004	69,232	86,325

<u>Employee's Base Salary</u>	<u>\$17,083</u>	=	0.832
Midpoint or Market Salary for Grade	\$20,530		

Convert the result (0.832) to a percent as follows:

$$100 \times 0.832 = 83.2\%$$

The employee's compa-ratio is 83.2%, which is 83.2% of the average market salary, or 16.8% below the market.

STEP 3: Calculate the employee's progression raise, which is 0.25% or 0.0025 multiplied by each full percent the employee's salary is below the market. In this example, that is 16%.

$$16 \times 0.0025 = 0.04 \text{ or } 4\%$$

Multiply this percent times the employee's base salary to determine the amount of the progression raise.

$$0.04 \times \$17,083 = \$683$$

STEP 4: Add the amount of the progression raise and the general increase to the employee's base salary to determine the employee's total raise.

Current Base Salary	\$17,083
General Market Increase	+ 683
Progression Increase	<u>+ 683</u>
New Base Salary	\$18,449

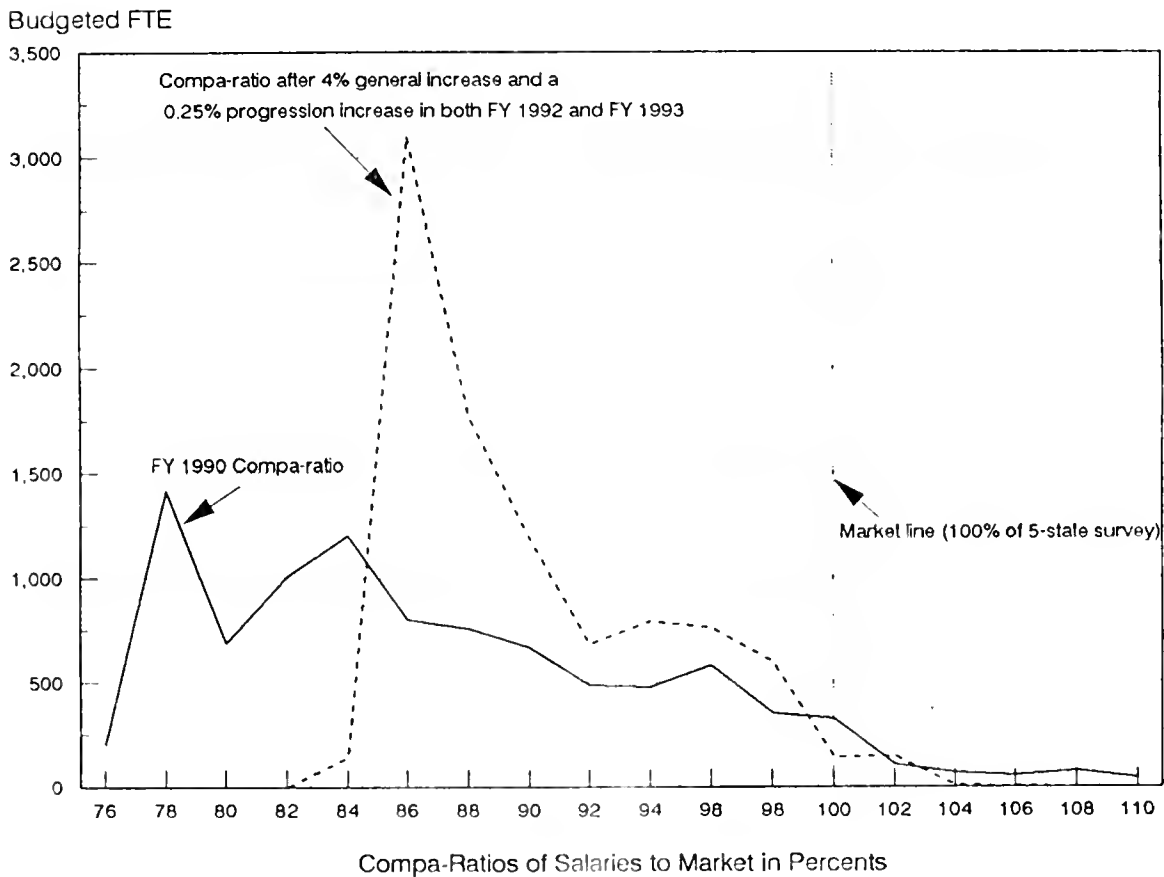
An employee whose salary is above the midpoint or average market salary for his or her assigned grade will receive the 4% general market increase but no progression increase.

Based on the Committee's pay increase proposal, state employees would receive an average of a 13.84% pay increase over the next biennium: 7.23% on average the first year and 6.61% on average the second year. According to the Department of Administration, the total recommended pay increase for

state employees would cost an estimated \$77.55 million over the biennium with approximately \$48 million in general fund dollars.

Figure 20 shows employee compa-ratios in the current FY 1990 plan compared to employee compa-ratios after 2 years of a 4% general pay increase and a 0.25% progression increase as recommended by the Committee.

Figure 20
Comparison of Employee Compa-Ratios
Before and After FY 92 and FY 93 Pay Increase



Please note: This does not account for new employees who would be hired at entry level

Source: Montana Department of Administration, State Personnel Division

CONCLUSIONS AND RECOMMENDATIONS

To prevent qualified employees from leaving state government, address the on-going recruitment difficulties being experienced in many state agencies, and begin to remedy the uneven distribution of employees in the pay schedule, the Committee concluded that pay increases must: (1) keep employee salaries competitive with the market, (2) put money into the job classes and grades furthest behind the market, and (3) quickly and equitably move employee salaries toward the midpoint of the new pay structure. To accomplish these objectives, the Committee on State Employee Compensation makes the following recommendations:

- **RECOMMENDATION: EFFECTIVE JULY 1, 1991, AND JULY 1, 1992, CLASSIFIED STATE EMPLOYEES SHOULD RECEIVE A 4% ACROSS-THE-BOARD INCREASE TO THEIR BASE SALARY PLUS AN ADDITIONAL 1/4 of 1% INCREASE TO THEIR BASE SALARY BEFORE THE 4% INCREASE FOR EACH FULL PERCENTAGE POINT THAT THEIR BASE SALARY FALLS SHORT OF THE MIDPOINT SALARY FOR THEIR ASSIGNED GRADE. (Approved 4 to 3 on August 30, 1990 and 5 to 3 on November 6, 1990.)**

LEGISLATION REQUIRED: Section 4 of the Committee's sample bill at Appendix A amends section 2-18-303, MCA, "Procedures for utilizing pay schedules", to reflect the Committee's pay increase recommendation for each year of the biennium.

- **RECOMMENDATION:** THE PROGRESSION INCREASE BASED ON THE PERCENTAGE POINTS THAT AN EMPLOYEE'S BASE SALARY IS BELOW THE MIDPOINT OF THE EMPLOYEE'S PAY GRADE SHOULD BE CONSIDERED A 2-YEAR PROPOSAL ONLY, BECAUSE THIS PROCESS WILL NOT ALLOW EMPLOYEES TO ACTUALLY REACH THE RANGE MIDPOINT NOR WILL IT PROVIDE MOVEMENT THROUGH THE UPPER HALF OF THE PAY RANGES.

LEGISLATION REQUIRED: None recommended.

NOTES

1. See, Montana Legislative Council, "State Employee Compensation and Related Issues," October 1989, pp. 68-74.
2. See, Montana Legislative Council and Department of Administration, "Results of Survey of Employees, Managers, and Union Representatives," April 1990, pp. 17, 43 and 60.
3. See, Montana State Personnel Division, "Fiscal Year 1990: Pay Plan Exception Report," prepared for the Committee on State Employee Compensation.
4. See Montana Legislative Council, "The Direct Compensation Plans of Twelve Other States," prepared by Sheri S. Heffelfinger for the Committee on State Employee Compensation, June 1990.
5. See, The Waters Consulting Group, State of Montana Compensation Issues and Recommendations, June 1990, p. 4-11.
6. Ibid., p. 6-4.
7. Ibid., pp. 5-2 and 5-3.
8. Ibid., p. 6-23.
9. The consultant's (TWCG) recommendations to revise the salary survey process are detailed in Chapter 3. The consultant's findings and recommendations to change the state's current job evaluation and classification approach are outlined in Chapter 2.
10. See, The Waters Consulting Group, Inc.'s final report to the Committee, June 1990, Chapter 5, for the consultant's detailed discussion of how individual equity based on individual performance would be achieved and maintained in the State of Montana.
11. See, Committee on State Employee Compensation, Minutes, August 10, 1990, pp. 9-11.

CHAPTER 5

PAY FOR PERFORMANCE

BACKGROUND

Performance appraisals and performance-based pay are commonly accepted compensation practices that can be used by employers to motivate employees and reward quality performance in the work place. However, measuring and rewarding performance is also the most problematic of pay practices and is the subject of continuing research and evaluation in the human resource field.

The State of Montana's performance appraisal policy is established under the authority of section 2-18-102, MCA, which grants rulemaking authority to the Department of Administration. The performance appraisal policy requires that agencies perform a "regular performance appraisal of all full-time and part-time employees in permanent positions".¹ The stated objective of the policy is to "establish minimum standards for performance appraisal" and to "encourage improved performance".²

The Committee focused on problems with the statewide pay plan's market competitiveness, the pay structure, and individual pay increases rather than on pay-for-performance issues. Thus, the Committee's discussion of issues and options regarding performance pay outlined in this chapter is limited.

SUMMARY OF FINDINGS

During the Committee's review of compensation issues in the state, pay for performance was addressed in testimony and correspondence, in the attitude survey of employees, managers, and union representative, and in the consultant's final report.

Testimony and Correspondence

An estimated 15% of the testimony and correspondence received by the Committee expressed positive interest in performance-based pay or incentive awards for excellent work. About 2.5% of the comments were negative toward performance pay. The following summary statements illustrate the tone of both the positive and negative comments:

- Managers should have more flexibility to reward superior performance.
- In order to motivate and reward employees, salary increases should be based on performance with higher raises given for superior performance.
- The state should not consider performance-based pay when it cannot pay employees the minimum salary they deserve.
- Performance-based pay cannot be administered fairly and will result in favoritism.³

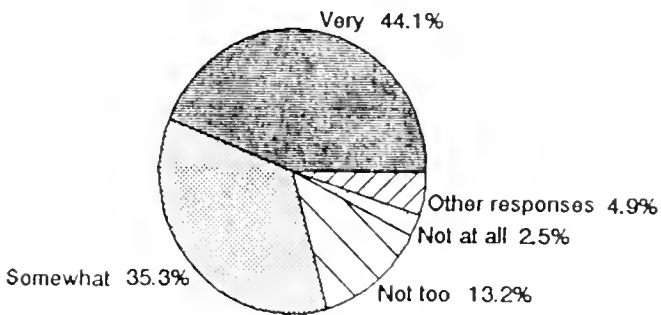
Problem Identification Survey

A survey of attitudes among state employees, managers, and union representatives indicates substantial interest in performance-based pay. Figure 21, extracted from the survey report prepared by the Montana Legislative Council staff and the Department of Administration in April 1990, graphically illustrates survey responses from employees, managers, and union representatives to the following question:

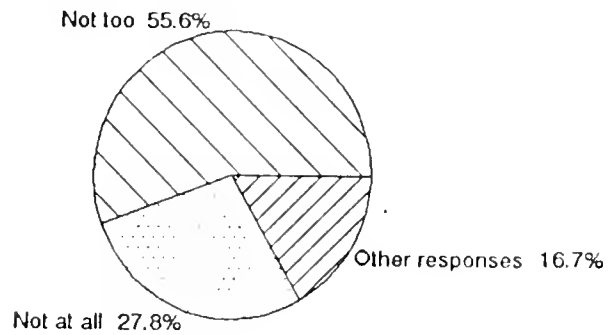
What are your feelings about the idea of awarding pay increases to employees for superior performance in their work -- how important would that be to you personally?

Figure 21
Pay for Performance
Degree of Importance

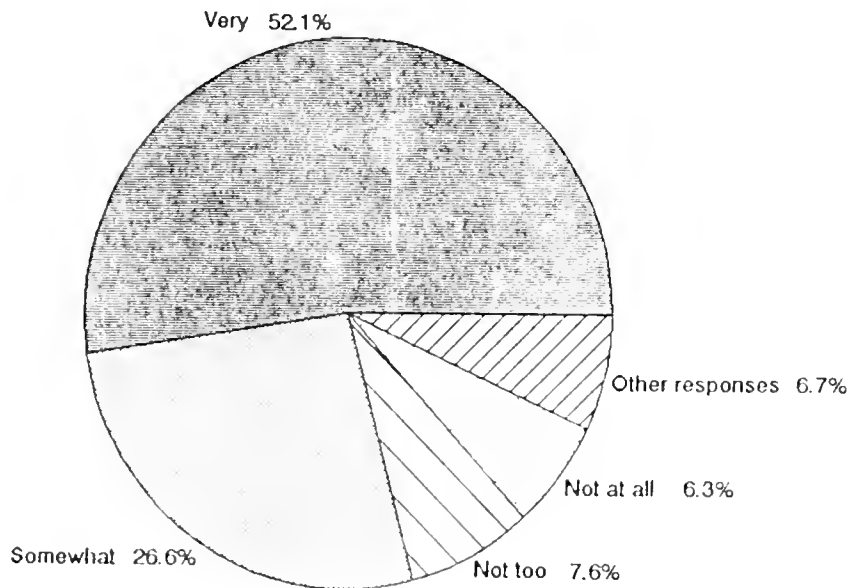
MANAGER SURVEY



UNION REPRESENTATIVE SURVEY



EMPLOYEE SURVEY



Source: Montana Legislative Council and Montana Department of Administration
Problem Identification Survey, April 1990.

Many of the respondents, however, expressed concern about how the performance appraisals would be done, who would do the appraisals, and uncertainty about whether the program could be administered fairly. While the survey reveals interest in pay for performance, the data is not conclusive.⁴

Performance Pay in other States

Reviewing the pay plans of other states in the region, the Committee found that many of the 12 states included in Montana's salary survey have a pay for performance policy requiring at least satisfactory employee performance for a general or step increase. However, these programs are generally not considered effective incentives for employees because performance-based pay increases are rarely denied.⁵

The Consultant's Findings

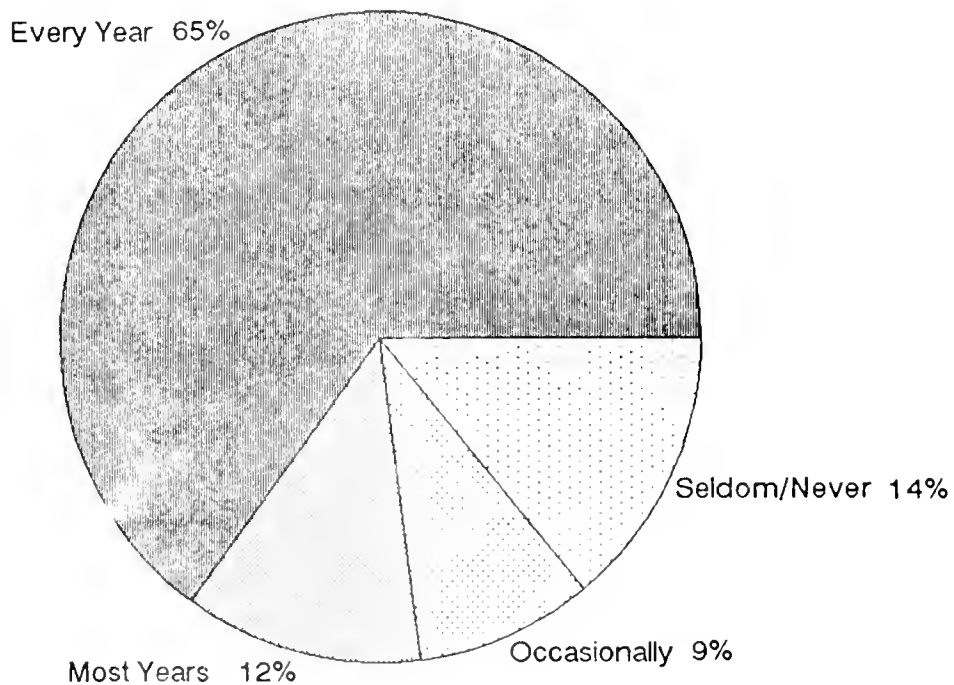
The Waters Consulting Group, Inc., through the Department of Administration, conducted an opinion survey of personnel officers in Montana's state agencies. This survey assessed the perceived effectiveness of the state's current performance appraisal system. Figure 22, extracted from TWCG's final report (June 1990), illustrates the survey's results.

Figure 22

State of Montana
Performance Appraisal
Survey Results - State Agencies
April 1990

Question:

What Percentage of Permanent Employees
In Your Agency Have Performance
Appraisal Completed on an Annual Basis?



Source: The Waters Consulting Group, Issues and Recommendations, June 1990.

The consulting group found that:

- 65% of permanent employees have a performance appraisal completed on an annual basis.

- More than 1/3 of the agencies responded that they have not used the performance appraisal form recommended by the Department of Administration. Instead, agencies have customized their own appraisal instruments.
- Records do not exist within any centralized department in the state to document the current implementation of performance appraisal in the agencies.⁶

In its June report to the Committee, TWCG listed the following key concerns related to pay for performance and individual equity in the state's pay plan:

- Employees are poorly motivated by a lack of direction in the system.
- Sufficient pay ranges do not exist to fully award adequate pay increases.
- Movement within pay ranges is determined only by length of service.
- An adequate performance management system does not exist.⁷

The Consultant's Recommendations

The Waters Consulting Group, Inc., strongly recommended that the state develop a new performance appraisal process. This recommendation is detailed in Chapter 5 of TWCG's June 1990 final report to the Committee. The major components of the recommendation are summarized below:

- Jobs within the state should be clustered into job families and each job family should have a specific performance appraisal document or manual.

- Committees of employees and managers should develop the performance appraisal manual for their respective job family. These committees, guided by staff of the Department of Administration, would help develop performance criteria and weights.
- Implementation of this performance appraisal system should consist of an instruction manual for supervisors and specific manager training, and the system should be phased-in using a small sample of employees first.
- The system should be reviewed and adjusted, if necessary, at least annually.
- The state should use TWCG's Performance Appraisal Management Software (P.A.M.S.) to maintain and validate the performance appraisal system.⁸

Committee Discussion and Action

During its fifth meeting, on May 10, 1990, the Committee decided not to spend time and resources studying the pay for performance issue. However, desiring not to set the issue aside entirely, the Committee unanimously voted to recommend that the Department of Administration and a task force of employees, managers, and union representatives study the viability of including pay for performance in the statewide pay plan sometime in the future.

Prior to the vote, a few Committee members voiced concern about whether a pay for performance program would be implemented fairly and expressed their belief that a number of employees oppose performance-based pay. Proponents of performance pay stressed that there are merits to a performance-based pay system that should not be ignored and that the

problem identification survey indicated employee interest in pay for performance.⁹

Because of the Committee's decision that the Department of Administration and a task force study pay for performance issues, the staff did not develop specific performance-based pay options for the Committee's consideration.

CONCLUSION AND FINAL RECOMMENDATION

The Committee's study of performance pay issues was limited. The Committee did not closely evaluate the consultant's recommendations or consider specific options regarding performance-based pay. However, recognizing the value of studying performance pay issues, the Committee recommends the following:

- **RECOMMENDATION: THE DEPARTMENT OF ADMINISTRATION, WITH A TASK FORCE OF EMPLOYEES, MANAGERS, AND UNION REPRESENTATIVES, SHOULD STUDY THE FUTURE VIABILITY OF PERFORMANCE-BASED PAY IN THE STATEWIDE PAY PLAN.**

(Unanimously adopted on May 10, 1990. A motion to drop this recommendation failed on October 18, 1990.)

LEGISLATION REQUIRED: None recommended.

NOTES

1. Administrative Rules of Montana 2.21.6403.
2. Ibid.
3. See, Committee on State Employee Compensation, Minutes, February 8 and October 17, 1990, as well as the summary matrix of testimony and correspondence developed by the Personnel Division for the Committee on State Employee Compensation on file at the Montana Legislative Council.
4. Montana Legislative Council and Department of Administration, "Results of Survey of Employees, Managers, and Union Representatives," compiled for the Committee on State Employee Compensation, April 1990.
5. See Montana Legislative Council, "Direct Compensation Plans of Twelve Other States," June 1990, prepared by Sheri S. Heffelfinger for the Committee on State Employee Compensation.
6. The Waters Consulting Group, Issues and Recommendations, June 1990, p. 5-7.
7. Ibid., p. 1-3.
8. Ibid., pp. 5-9 through 5-13.
9. See, Committee on State Employee Compensation, Minutes, May 10, 1990, pp. 13-15.

CHAPTER 6

LONGEVITY PAY

BACKGROUND

Longevity pay did not surface as a critical issue in the Committee's study of the state's compensation plan and the Committee's attention was drawn to the major problems identified -- the market competitiveness of the statewide pay structure and individual salaries. However, the Committee did discuss longevity pay in the course of recommending an open range pay plan rather than a step plan. (See Chapter 4.) The Committee's discussion of longevity pay is summarized in this chapter.

Under the provisions of section 2-18-304, MCA, a state employee currently is entitled to the greater of \$10 a month or 10% of the difference between the base salary of the employee's assigned grade and step and the base salary of the next highest grade and corresponding step multiplied by the number of contiguous 5-year periods of uninterrupted state service. This provision has not been changed since the pay plan's enactment in 1973.

SUMMARY OF FINDINGS

Testimony and Correspondence

Approximately 14% of the testimony and correspondence from agency heads and others at the Committee's February 1990 public hearing commented that the state should provide a more meaningful longevity allowance. At the October 1990 public hearing on the Committee's preliminary pay recommendations, 46% of those testifying said the state should increase the longevity allowance.

Other States

The Montana Legislative Council's study of pay plans in the 12 states participating in Montana's salary survey shows that:

- Of the seven states with step plans (Colorado, Minnesota, Oregon, Washington, New Mexico, Nevada, and Idaho), only Nevada and Idaho pay a longevity allowance in addition to annual step increases.
 - Nevada pays employees \$75 per year after 8 years of continuous state service and an additional \$25 a year for each year of service thereafter up to 30 years.
 - Idaho pays an allowance equivalent to 2.5% of an employee's base salary for every 5 years of continuous state service. This percent is increased every 5 years up to 10% of an employee's base salary for 20 or more years of service.
 - New Mexico is in the process of changing from an open range pay plan to a step plan with the intent that the last three steps of the proposed 12-step plan will be reserved as longevity steps: one step (3% of the midpoint of the grade's pay range) for every 3 years of service.
- Of the five states with open range pay plans (North Dakota, South Dakota, Arizona, Wyoming, and Utah), South Dakota, Wyoming and Utah pay a separate longevity allowance.
 - South Dakota annually pays its employees \$10 x years of service after 10 years; \$15 x years of service after 15 years; \$20 x years of service after 20 years; \$30 x years of service after 30 years; and \$40 x years of service after 40 years.

- State employees in Wyoming receive \$30 per month for every 5 years of consecutive service.
- Once Utah state employees reach the top of their pay range, the state pays them an additional 3.5% step increase for every 5 years of consecutive service.¹

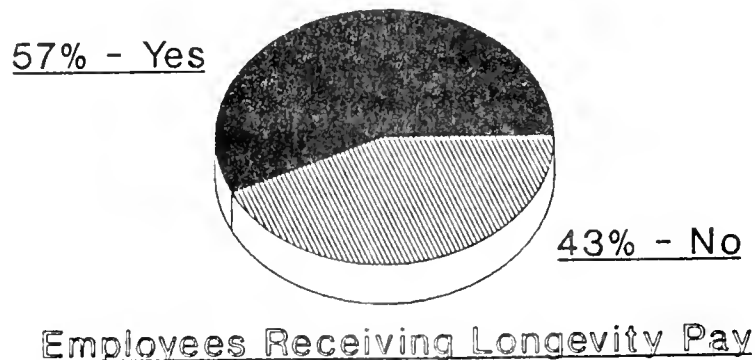
The Consultant's Findings and Recommendations

The Waters Consulting Group, Inc., did not specifically research the longevity issue or offer any recommendations regarding the longevity allowance. However, using data provided by the Department of Administration, TWCG reported that 57% of the state's employees, excluding classified employees in the university system and exempt employees, receive the longevity allowance; this accounts for 1.4% of the state's total payroll. Figure 23, extracted from TWCG's final report to the Committee, illustrates TWCG's findings.²

Figure 23
State of Montana
Longevity Pay
March 1990

Statistical Source Montana's Payroll Database					
	Total State Empl	Total Employees Receiving Longevity	Total Yearly Longevity Pay	Total Yearly Salaries Including Longevity	Longevity As a % of Total Salaries
Longevity Pay All Employees					
Statewide Plan	9,023	5,135	\$2,655,876	\$183,007,392	1.5%
Physician's Plan	9	4	\$12,636	\$721,644	1.8%
Teachers-Deaf/Blind	29	0	\$0	\$622,848	0.0%
Teachers-Institutions	48	26	\$5,160	\$1,137,744	0.5%
Blue Collar Plan	873	538	\$190,680	\$20,114,928	0.9%
State Liquor Plan	113	57	\$14,304	\$1,855,728	0.8%
Totals	10,095	5,760	\$2,878,656	\$207,460,284	1.4%

Note: These Statistics Do Not Include Exempt Employees
or Classified Employees in the Education System.



Source: The Waters Consulting Group, Dallas, Texas

ISSUES AND OPTIONS

Longevity pay surfaced for discussion when the Committee reviewed sample legislation amending Title 2, Chapter 18, MCA, which addresses state employee compensation. Drafted at the Committee's request, the sample bill incorporated the Committee's preliminary recommendations for an open range pay plan initially based on a 10% market lag to a 5% market lag within 5 years.

Although the Committee had not previously addressed longevity pay, the Committee's recommendation that the statewide pay plan be changed from a step plan to an open range plan necessitated a change in how the longevity allowance is calculated. (As previously noted, the amount of an employee's longevity allowance is currently based on an employee's grade and step.) In the sample bill, section 2-18-304, MCA, is amended so that the longevity calculation is based on the greater of \$10 per month or 9/10 of 1 percent per year of the employee's base salary multiplied by the number of contiguous 5-year periods of state service. This amendment kept the longevity allowance as close as possible to the amount currently provided.³

The Committee considered three basic options for the longevity allowance:

Options

- A. Amend section 2-18-304, MCA, keeping the longevity allowance as close as possible to what employees are currently paid;
- B. Increase the longevity allowance; or
- C. Decrease the longevity allowance.

Committee Discussion

The Committee noted that it had not had the time to review the costs and implications of the options. One member preferred a flat dollar amount for longevity rather than an allowance based on a percent of employee pay. Two members noted that the private sector was moving away from longevity pay and towards performance-based compensation and that if the state did not fund a longevity allowance, more money would be available for market-based salary increases. Another member responded that longevity was a reward for commitment, not merit.

A motion that the longevity allowance be changed to a flat \$25 per month for every 5 consecutive years of service failed. A motion to drop the longevity allowance in consideration of market-based salary increases led to a substitute motion that calculations for the longevity allowance retain, as closely as possible, the amount currently provided. The substitute motion passed 4 votes to 3.⁴

CONCLUSION AND RECOMMENDATION

Given the Committee's focus on the structure of the statewide pay plan, the market competitiveness of the plan, and individual pay increases, the Committee's consideration of longevity pay was limited. In the context of reviewing sample legislation amending section 2-18-304, MCA, to accommodate a longevity pay calculation in an open range pay plan, the Committee recommends the following:

- **RECOMMENDATION: THE LONGEVITY ALLOWANCE PROVIDED IN SECTION 2-18-304, MCA, SHOULD BE CALCULATED AS THE GREATER OF \$10 A MONTH OR 9/10 OF 1 PERCENT PER YEAR OF AN EMPLOYEE'S BASE SALARY MULTIPLIED BY THE NUMBER OF CONTIGUOUS 5-YEAR PERIODS OF UNINTERRUPTED SERVICE, THUS KEEPING THE AMOUNT OF THE ALLOWANCE AS CLOSE AS**

POSSIBLE TO WHAT IS CURRENTLY PROVIDED IN THE STEP PLAN FORMULA.

LEGISLATION REQUIRED: An open range pay plan, as recommended by the Committee, requires a change in how the longevity allowance is calculated. See Section 5 of the Committee's sample bill at Appendix A.

NOTES

1. See, Montana Legislative Council, "The Direct Compensation Plans of Twelve Other States," June 1990, prepared by Sheri S. Heffelfinger for the Committee on State Employee Compensation.
2. The Waters Consulting Group, Inc., Issues and Recommendations, June 1990, p. 6-25.
3. See, [Section 5] of the sample bill at Appendix A.
4. See, Committee on State Employee Compensation, Minutes, August 30, 1990, pp. 11-13.

CHAPTER 7

BENEFITS

BACKGROUND

The benefit package for state employees includes: (1) holiday, vacation, and sick leave; (2) membership in a group health benefits plan and state retirement plan; and (3) social security, workers' compensation, and unemployment compensation. State employees may also participate in a deferred compensation plan and an incentive awards program. "State Employee Compensation and Related Issues," a Montana Legislative Council background research report, October 1989, provides an overview of state employee benefits.

During the Committee's review of compensations issues, benefits emerged as a strength in Montana's state employee compensation plan. The Committee, therefore, decided to not address state employee benefits. This chapter will provide the background of the Committee's decision.

SUMMARY OF FINDINGS

Testimony and Correspondence

Approximately 10% of the testimony from agency heads and public comments during the Committee's first public hearing in February 1990 related to employee benefits. While some comments encouraged the state to continue maintaining its current benefit programs, some employees and agency directors suggested areas for improvement. Some of these comments are summarized below:

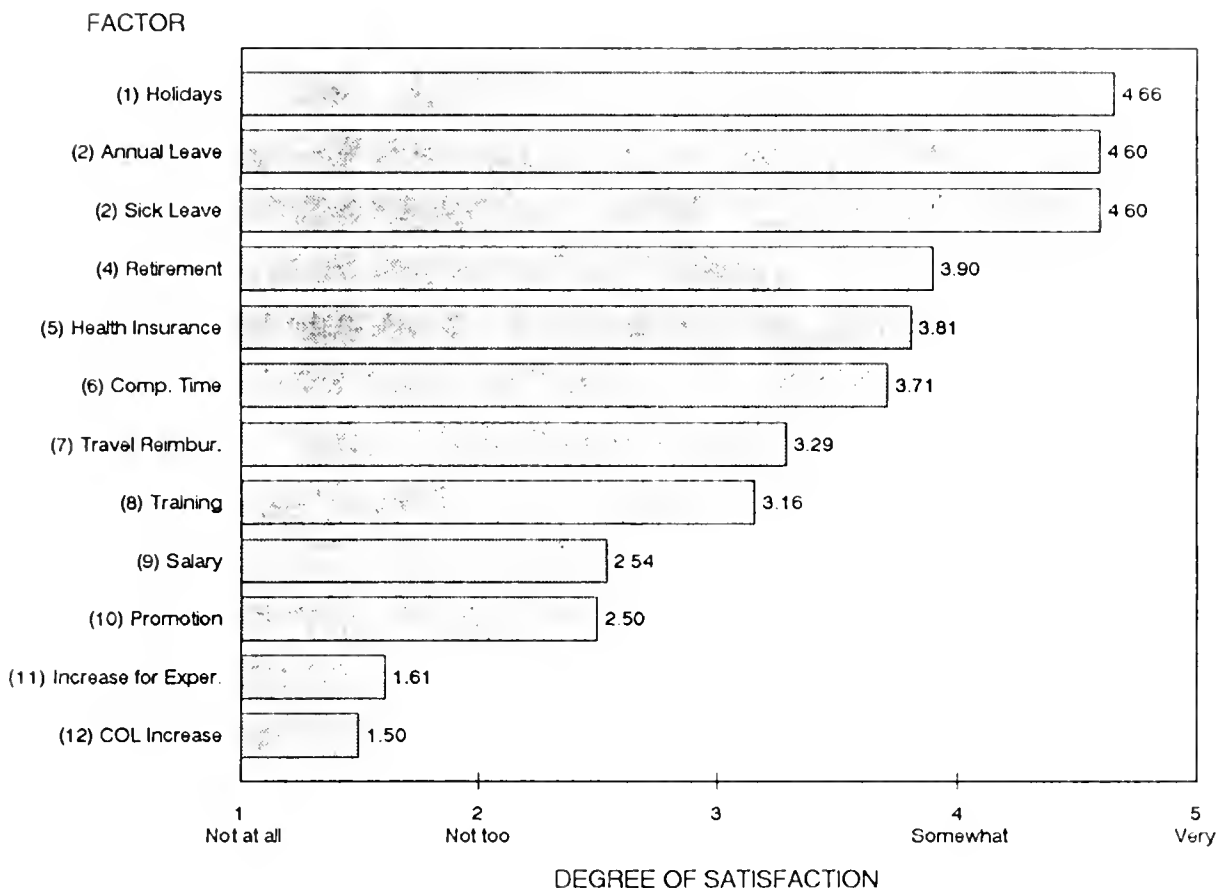
- The state should provide a "cafeteria style" benefits program from which employees can pick and choose.

- Day care should be included in the benefit program.
- The state's contribution for part-time employees should be pro-rated.
- The state's contribution to health insurance should be increased because increasing costs for medical care have resulted in more out-of-pocket expenses for employees and have, in effect, reduced benefits.
- Unused sick leave should be credited as service for retirement.
- Compensatory time policies are not uniformly applied.
- Benefits should not be cut for employees under age 60 who choose to retire after 25 years of state service.
- The state contribution to the university retirement plan is too low.

Problem Identification Survey

The attitude survey of state employees showed that most employees are satisfied or very satisfied with the state's benefit program. Figure 24 illustrates employee responses to the survey:

Figure 24
Current Satisfaction Among State Employees



Source: Montana Legislative Council and Department of Administration Problem Identification Survey

Employees also rated state benefits as an important factor in their decision to work for the state.¹

Salary and Benefits Survey

A benefits survey is part of the Department of Administration's biennial salary survey. The January 1990 benefit survey included 12 states:

Colorado, North Dakota, South Dakota, Wyoming, Idaho, Arizona, Utah, Nevada, New Mexico, Washington, Oregon, and Minnesota. Differences in how states administer their benefit programs and the wide variety of costs compared to actual coverage makes it difficult to directly compare benefit programs. However, in May 1990, the Personnel Division presented to the Committee the preliminary results of its 1990 benefits survey.² Findings showed that:

- Out-of-pocket expenses for Montana state employees for individual health coverage ranked the lowest among the 12 states for the coverage provided. (As of September 1990, an increase in employee contributions to health coverage ties Montana as second-lowest in employee out-of-pocket expenses for individual health care.)
- Out-of-pocket expenses for family health care coverage for Montana state employees is the fourth lowest among the surveyed states.
- Montana employees earn 37.5 days of paid leave per year with the average leave in the survey ranging from 34 to 41 days.
- Montana offers state employees the lowest retirement age of the other states and has a better disability plan than most states.

(Please refer to the Department of Administration's January 1990 Salary and Benefits Survey Report for more detailed data on state employee benefits.)

ISSUES AND OPTIONS

During its fifth meeting, May 10, 1990, the Committee reviewed public testimony and correspondence, the problem identification survey data, and the preliminary results of the benefits survey. The Committee then worked to select and prioritize compensation issues for further research. The issue

before the Committee regarding benefits was whether or not to further study the state's employee benefit programs and, if so, what programs.³

DISCUSSION AND CONCLUSION

Committee members concurred that Montana's benefits were quite good and, consequently, were not a compensation problem for the Committee to address. The Committee also noted that the State Employee Group Benefits Advisory Council was already reviewing benefit issues for state employees.

A motion to not further address state employee benefit issues passed unanimously and no recommendation regarding state benefits is offered by the Committee.⁴

NOTES

1. See, Montana Legislative Council and Department of Administration, "Results of Survey of Employees, Managers, and Union Representatives," April 1990, prepared for the Committee on State Employee Compensation.
2. See, Committee on State Employee Compensation, Minutes, May 10, 1990, pp. 4-5.
3. See, Montana Legislative Council, "Issues Checklist Phase One: Identifying Issues and Selecting Priorities," May 1990, prepared by Sheri S. Heffelfinger for the Committee on State Employee Compensation.
4. See, Committee on State Employee Compensation, Minutes, May 10, 1990, p. 13.

CHAPTER 8
SPECIAL COMPENSATION ISSUES:
SHIFT DIFFERENTIALS, HAZARDOUS DUTY PAY, TRAVEL

BACKGROUND

Special compensation issues considered by the Committee on State Employee Compensation included special pay for evening and night shifts, hazardous duty, full-time travel, and reimbursement for travel expenses. The Committee's efforts were primarily focused on shift differentials for all eligible state employees. This chapter summarizes the Committee's findings, deliberations, and conclusions on each of these issues.

SUMMARY OF FINDINGS

Testimony and Correspondence

- An estimated 3% of the testimony and correspondence to the Committee through March 1990 advocated shift differential pay for state employees required to work evening and night shifts, especially for health-care professionals;
- 1.5% of the testimony advocated hazardous duty pay for firefighters and law enforcement officers; and
- approximately 3.5% of the testimony stated that the state's travel reimbursement for meals and lodging was inadequate.¹

Problem Identification Survey

Shift differentials and hazardous duty pay were not included in the Department of Administration's problem identification survey of employees, managers, and union representatives. However, survey participants were

asked to rate their satisfaction with reimbursement for travel expenses. The results showed that managers were especially dissatisfied with travel reimbursements. Fifty percent of the managers who responded were dissatisfied, 27.8% were "somewhat" satisfied, and only 5.6% were "very" satisfied. (See Appendix D for an illustration of the survey responses and a comparison with responses on other compensation factors.)²

Findings from Other Surveys

- A 1990 state benefits survey by Workplace Economics, Inc., of Washington, D.C., showed that 90% of the 50 states pay shift differentials; 80% pay some form of standby or "on call" pay; and 40% pay some form of hazardous duty premium to employees in selected occupations. The survey offered no data on a special pay for full-time travel or on travel expense reimbursement.³
- A June 1990 Bureau of National Affairs survey reports that 89% of the surveyed organizations with more than one work shift pay employees a shift differential for evening and night work. Shift differentials paid ranged from \$0.07 per hour to \$1.50 per hour for the evening shift and from \$.05 per hour to \$2.50 per hour for the night shift. The median differential paid was \$0.30 per hour for the evening shift and \$0.40 per hour for the night shift. The survey sample included: 42% non-manufacturing businesses such as retail, finance, service, and utility companies; 33% manufacturing firms; and 25% non-business organizations such as health care, government, and educational institutions.⁴
- At the Committee's request, the Montana Legislative Council staff conducted a mini-survey of Montana employers to collect in-state information on shift differentials and hazardous duty pay. This survey was limited and provided only sample findings to the Committee and are not statistics reliable enough to determine a centralized tendency

in shift differentials or hazardous duty pay. Figure 25 is extracted from the staff's supplementary report on special compensation issues prepared for the Committee in October 1990.⁵

Figure 25
Specific Findings: Shift Differential Pay

<u>Type</u>	<u>Surveyed</u>	<u>Pay Shifts*</u>	<u>Avg Paid 2nd</u>	<u>Avg Paid 3rd</u>
States	12	12 (0)	\$.44 per hr	\$.44 per hr
Health Care	6	5 (3)	\$.80 per hr	\$.87 per hr
City/County	5	5 (3)	\$.35 per hr	\$.41 per hr
Private/Other	8	4 (1)	\$.46 per hr	\$.53 per hr
AVERAGE	31	26 (7)	\$.51 per hr	\$.56 per hr

* The number in parentheses indicates the number of employers who pay more for the third or graveyard shift.

Note: These averages are an average of the different values reported in the survey and do not reflect a central tendency. Averages also do not include those reporting amounts in percentages or \$/mo.

- In June 1990, the Department of Administration surveyed all Montana state agencies to determine the number of full-time equivalent positions (FTEs) that agencies felt were eligible for shift differentials, hazardous duty pay, or special compensation for full-time travel. The results of this survey are outlined in a research report compiled by the Montana Legislative Council staff.⁶ The survey did not define evening and night shift hours or hazardous duty. Therefore, the responses indicated a wide range of interpretations regarding FTEs eligible for the special compensation.
- Conducted in October 1990, a survey of personnel officers in Montana state agencies showed 973.7 FTEs regularly working hours

after 6 p.m. or before 7 a.m. More than 50% of the FTEs are in the Department of Institutions.⁷

- No information was available on a special allowance for full-time travel.

Committee Discussion and Action

May 1990

The Committee first took action on special compensation issues in May 1990, when working to select and prioritize issues for further research. The Committee unanimously recommended that the Department of Administration study the state's travel reimbursement policy.

Special compensation, such as shift differentials and hazardous duty pay, was unanimously selected for further Committee research as a component of the Committee's study of the state's pay structure.⁸

July 1990

In July, the Committee noted that although it had some background research showing that most state agencies had employees in a variety of occupations working other than day shifts, further research would be required before the Committee could accurately define shifts and determine how much of a differential to pay employees.

The Committee also noted that hazardous duty is built into the state's compensation plan through job evaluation and classification. Physical demands and working conditions of a job are classification factors. Some members pointed out that the Committee was running out of time, having only two scheduled meetings left and with more complicated compensation issues still to be addressed. However, other members responded that the

state made a commitment in 1975 to consider hazardous duty pay in return for employee support of the pay matrix. Proponents of special compensation argued that the Committee would be shirking its responsibility to employees if it did not address special compensation, including hazardous duty pay, in conjunction with the overall pay plan.

Split 4 to 3, the Committee decided to continue researching shift differentials and hazardous duty pay.⁹

October 1990

In October, the Committee appointed a special subcommittee to develop a recommended policy on shift differential and hazardous duty pay for the full Committee to consider in November. This 4-member subcommittee (consisting of Committee Chairman Bob Marks, Barbara Booher, Sen. Gerry Devlin, and Gene O'Hara) agreed to define the evening and night shifts as one shift starting at 6 p.m. and ending at 7 a.m. Only permanent employees would be eligible for the shift differential. The subcommittee also agreed to propose that eligible employees be compensated \$.30 per hour for those hours of their regular schedule worked after 6 p.m. or before 7 a.m. any day of the week. The differential would be paid in addition to employees' regular pay.

The subcommittee also briefly discussed "on-call" or "standby" pay to compensate employees for the hours that an employee must stay available for a call back to work. However, the subcommittee deferred a decision on this issue until it could be discussed by the full Committee. (Discussion by the full Committee resulted in no recommendation.)

On hazardous duty pay, the subcommittee advised the full Committee not to make a recommendation. The subcommittee's decision was based on difficulty in defining "hazardous duty" for a range of special occupations.¹⁰

November 1990

At its final meeting, November 6, 1990, the Committee unanimously agreed that a shift eligible for differential pay should be defined as regularly scheduled hours worked after 6 p.m. and before 7 a.m. any day of the week. The Committee also supported limiting eligibility for a shift differential to full- or part-time permanent state employees.

One Committee member moved that the shift differential be raised from the subcommittee's recommended \$.30 per hour to \$1.00 per hour. The member argued that \$.30 per hour was not a meaningful differential, especially to highway patrol officers. The Committee narrowly supported the \$1.00 per hour shift differential for all eligible state employees by 4 votes to 3. The estimated cost of a \$.30 per hour shift differential is \$533,000 annually. The estimated cost of the \$1.00 per hour differential is \$1.6 million a year.

The Committee agreed not to make a recommendation regarding hazardous duty pay.

CONCLUSIONS AND RECOMMENDATIONS

After 6 months of gathering information and six Committee meetings, the Committee developed a recommendation for shift differential pay for state employees. The shift differential recommendation is based on testimony and correspondence indicating substantial employee and union interest in shift differentials, especially for state-employed nurses represented by the Montana Nurses Association. The Committee's recommendation is also primarily based on two findings: (1) that 45 of the 50 states pay their employees for shifts, including all states surveyed in the Department of Administration's biennial salary survey, and (2) that 89% of the public and private employers surveyed in June 1990 by the Bureau of National Affairs pay employees shift differentials.

The Committee's recommendation on travel expense reimbursement is based on a conclusion that the issue is an identified problem that requires further consideration.

- **RECOMMENDATION:** TO COMPENSATE EMPLOYEES FOR A REGULAR WORK SCHEDULE THAT DIFFERS FROM THE CUSTOMARY DAY SHIFT, A SHIFT DIFFERENTIAL OF \$1.00 PER HOUR SHOULD BE PAID TO PERMANENT STATE EMPLOYEES FOR ANY REGULARLY SCHEDULED WORK HOURS AFTER 6:00 P.M. AND BEFORE 7:00 A.M. ON ANY DAY OF THE WEEK THAT IS REQUIRED AS PART OF AN EXTENDED SERVICE OBLIGATION.

LEGISLATION REQUIRED: A provision for shift differential pay is included in Section 7 of the Committee's sample bill at Appendix A.

- **RECOMMENDATION:** THE DEPARTMENT OF ADMINISTRATION SHOULD STUDY THE STATE'S POLICY ON TRAVEL EXPENSE REIMBURSEMENT AND DEVELOP RECOMMENDATIONS FOR FUTURE CONSIDERATION.

LEGISLATION REQUIRED: None recommended.

NOTES

1. Reimbursement for travel expenses is statutorily defined in Title 2, Chapter 18, Part 5, MCA. In-state reimbursement is: \$3.00 for breakfast; \$3.50 for lunch; \$8.00 for dinner; \$24.00 plus \$0.96 tax for lodging; 3 cents less per mile than the mileage rate allowed by the U.S. internal revenue service for the preceding year for a privately owned vehicle used on official business.

2. See, Montana Legislative Council and Department of Administration, "Results of the Survey of Employees, Managers, and Union Representatives," April 1990, compiled for the Committee on State Employee Compensation. See also, Montana Legislative Council, "Summary Analysis: Problem Identification Survey Results," April 1990, prepared for the Committee on State Employee Compensation.

3. See, Workplace Economics, Inc., "1990 State Employee Benefits Survey," Washington D.C., January 1, 1990, pp. 43-45.

4. See, The Bureau of National Affairs, Inc., "Wage and Salary Administration," Personnel Policies Forum Survey No. 147, June 1990, p. 2 and pp. 16-17.

5. For more detailed information see, Montana Legislative Council, "Shift Differential and Hazardous Duty Pay Survey Report: October 1990," prepared by Sheri S. Heffelfinger for the Committee on State Employee Compensation.

6. See, Montana Legislative Council, "Special Compensation Issue Summary," July 1990, compiled by Sheri S. Heffelfinger for the Committee on State Employee Compensation.

7. The Legislative Council has on file a table prepared by the State Personnel Division showing by agency the number of FTEs potentially eligible for a shift differential, the number of hours on the assigned shift that actually fall after 6 p.m. or before 7 a.m., and the estimated cost of paying employees a \$.30 per hour shift differential.

8. See, Committee on State Employee Compensation, Minutes, May 10, 1990, and the Montana Legislative Council, "Issues Checklist: Phase One," May 1990, prepared by Sheri S. Heffelfinger for the Committee on State Employee Compensation.

9. See, Committee on State Employee Compensation, Minutes, July 31, 1990, pp. 10-15.

10. The issues and options discussed by the subcommittee are outlined in two discussion briefs prepared by the State Personnel Division for the subcommittee. These briefs, "Proposals for Discussion" and " Subcommittee Proposals," are on file at the Montana Legislative Council.

CHAPTER 9

SEPARATE PAY PLANS, UNION PROPOSALS, AND EXCEPTED EMPLOYEES

BACKGROUND

To define the scope of its work and prioritize a range of compensation issues, the Committee had to decide whether or not to study the state's separate statutory pay plans, additional separate pay plans for selected employee groups, and excepted employees. In May 1990, the Committee voted to research (1) the teachers' pay plans; (2) employees excepted from the pay plan since 1975; and (3) new, separate pay plan proposals. However, given limited Committee staff time, the Committee agreed to rely on union representatives to prepare proposals for modifying the teachers' pay plans and for creating new, separate pay plans. The Montana Legislative Council staff prepared a background report for the Committee reviewing the history of legislation excepting state employees from the pay plan.¹

Throughout May and June 1990, the Montana Legislative Council coordinated with the Department of Administration's Labor Relations Bureau and with representatives of the Montana Education Association (MEA), the Montana Nurses Association (MNA), the Montana Federation of State Employees (MFSE), and Council 9 of the American Federation of State, County and Municipal Employees (AFSCME). The Committee reviewed the union proposals in July, but voted not to further consider or research the teachers' pay plans or the proposed separate pay plans.

The Committee did, however, vote to further consider returning statutorily excepted employees to the statewide pay plan.²

This chapter summarizes the union proposals and the excepted employee issue. The Montana Public Employee Association (MPEA) and AFSCME did not submit any separate pay plan proposal.

MONTANA NURSES ASSOCIATION

As expressed in the testimony and correspondence of MNA, the Association's membership believes that a separate pay plan for registered nurses is the best way to address recruitment and retention problems and to compensate nurses for working evening and night shifts, being on-call, working overtime, or acquiring special training. There are 126.05 FTE positions for state-employed registered nurses, most of whom are in the Department of Institutions. The compensation problems besetting registered nurses are summarized in MNA's June 29, 1990, letter to the Committee:

"Direct Patient Care Professional Employees have a substantially different employment setting than do clerical, administrative, maintenance and other professional pay classifications. This difference can best be dealt with in a pay plan and rules that is [sic] specific to the nature of their work."³

MONTANA FEDERATION OF STATE EMPLOYEES

The Montana Federation of State Employees (MFSE) supports a separate pay plan for the Department of Institutions and another plan and parole officers. The Department of Institutions has a total of 2,084.18 FTEs, while there are approximately 47 employees that would be covered by a probation and parole officers' pay plan.

Proposal for the Department of Institution's Plan

The MFSE proposed two pay plans for the Department of Institutions: one plan for paraprofessionals (Grades 5 through 11), and one plan for professionals (Grades 12 and above). Both pay plans would be single-rate plans, like the existing blue collar pay plan. Each plan would be renegotiated every 2 years with an add-on longevity allowance also negotiated every 2

years. MFSE's proposal also calls for shift differentials of \$.50 an hour from 5 p.m. to 11 p.m. and \$1 an hour from 11 p.m. to 7 a.m. The two pay plans would be implemented over a 2-year period during which paraprofessionals at step 3 and above would receive an additional 75 cents an hour in FY91 and an additional 50 cents an hour in FY92. Professionals at step 3 and above would receive a 6% salary increase in FY 91 and a 5% salary increase in FY92.

Proposal for Parole and Probation Officers

Maintaining that a separate pay plan is necessary for the state's parole and probation officers to provide more competitive salaries and a career ladder, the MSFE proposed a single rate pay plan with an add-on longevity allowance. The MSFE also proposed that the plan be funded by "supervisory fees" of approximately \$30 per month paid to the state by the parolee as part of his or her parole conditions.

MONTANA EDUCATION ASSOCIATION

A July 31, 1990, proposal from the MEA summarizes the problems and issues affecting the state's 9-month teachers' pay plan as provided in section 2-18-313(1)(b), MCA. The MEA plan applies to teachers employed at the Pine Hills and Mountain View Schools operated by the Department of Family Services. The plan covers a total of 21.34 FTEs, including 18.9 FTEs paid from the state's general fund and 2.44 federally funded FTEs.

To address what MEA summarized in its plan as "the inequities and inadequacies of the statutory pay schedule for the state employed teachers at the Pine Hills and Mountain View Schools", the MEA proposes the following adjustments to the 9-month teachers' pay plan:

- (1) raise base salaries by 10.8% in FY 1992;

- (2) establish a uniform and progressive increment of 3.5% between each step and grade;
- (3) add two step increases to the pay plan making it a true 13-step plan (the current plan has 13 steps but there is no difference in employee salaries between steps 11, 12, and 13);
- (4) place incumbent teachers in the range and step that is most appropriate to their experience and education. (This would remedy inequities and pay compression problems that resulted when steps were frozen between FY85 and FY90.)
- (5) guarantee future step advancements; and
- (6) keep salaries competitive by tying the pay schedule to the market so adjustments are made as the going market rates change.

Committee Discussion, Separate Pay Plan Proposals

As previously noted, the Committee decided not to further evaluate these union proposals due to limited time and resources and the overriding need to address problems identified in the statewide pay plan.

EXCEPTED EMPLOYEES

Section 2-18-103, MCA, lists the positions and employees in state government that are excepted or exempted from the state's pay plans. Salaries and pay policies for excepted employees are set by each agency's director or supervisors. The Legislative Council's Legal Division prepared a legislative history of excepted employees and presented the report to the

Committee in July, 1990. This report is available through the Legislative Council.⁴

Committee Discussion: Excepted Employees

Following the background report on excepted employees, a Committee member asserted that employees were primarily excepted from the statewide pay plan for the purpose of receiving higher salaries.

Other Committee members noted that if a market-based pay plan were adopted by the state, competitive salaries for excepted employees could be accommodated. Consideration for returning employees to the statewide pay plan, the Committee concluded, would discourage future exception requests. The Committee also agreed that exceptions for selected groups of employees results in inequitable pay practices within the state.

In the course of reviewing a sample bill containing the Committee's major recommendations, a Committee member moved that employees of the State Compensation Mutual Insurance Fund be returned to the statewide pay plan because of the agency's recent pay increases.⁵ Another rationale for supporting the motion was that a large number of employees had recently been excepted from the plan and were making salaries that could be provided for in the market-based plan. These employees, furthermore, work in jobs comparable to those classified in the statewide plan. One Committee member suggested that all excepted employees be returned to the pay plan. Another member questioned whether such a recommendation would distract attention from the Committee's primary recommendations.

The motion that employees, except the executive director, of the State Compensation Mutual Insurance Fund be returned to the statewide pay plan passed 7 to 1.

CONCLUSIONS AND RECOMMENDATIONS

Based on the reports and discussion outlined above, the Committee on State Employee Compensation decided not to further consider the union-sponsored separate pay plan proposals due to the amount of additional research that would be required and the Committee's time constraints. However, regarding excepted employees, the Committee concluded that (1) many employee's were excepted from the plan to allow for higher salaries; (2) the Committee's market-based pay plan proposal addresses the market competitiveness of classified state employees; and (3) excepting employees from the statewide pay plan erodes the plan's credibility and creates pay inequities among state employees.

- **RECOMMENDATION: EMPLOYEES OF THE STATE COMPENSATION MUTUAL INSURANCE FUND, NOT INCLUDING THE EXECUTIVE DIRECTOR, SHOULD BE RETURNED TO THE STATEWIDE PAY PLAN.**

LEGISLATION REQUIRED: To implement the Committee's recommendation, subsection (15) of section 2-18-103, MCA, must be stricken as shown in Section 2 of the Committee's sample bill at Appendix A.

NOTES

1. See, Montana Legislative Council, "History of Legislation Exempting State Employees From the State Pay Plan," July 31, 1990, prepared by Doug Sternberg.
2. See, Committee on State Employee Compensation, Minutes, July 31, 1990, and Montana Legislative Council, "Issues Checklist Phase Three: Pay Plan Structure, Special Compensation, Separate Pay Plan Proposals, and Job Classifications," June 1990, prepared by Sheri S. Heffelfinger for the Committee on State Employee Compensation.
3. For a full copy of the MNA June 29, 1990, letter see, Montana Legislative Council, "Separate Pay Plan Proposals: Issue Summary," June 1990, prepared by Sheri S. Heffelfinger for the Committee on State Employee Compensation.
4. See, Montana Legislative Council, "History of Legislation Exempting State Employees From the State Pay Plan," July 31, 1990, prepared by Doug Sternberg for the Committee on State Employee Compensation.
5. In July 1990, the State Mutual Insurance Fund granted pay increase ranging from 25 percent to 72 percent for top executives. Political pressure prompted the board to reduce the pay increases. With the reduction, increases ranged from 16 percent to 67 percent for top executives. Salary increases for staff ranged from \$650 or 5 percent annually to \$725 annually. The board maintained that the raises were necessary to compete within the labor market.

APPENDIX A

1 _____ BILL NO. _____

2 INTRODUCED BY _____

3 BY REQUEST OF THE COMMITTEE ON STATE EMPLOYEE COMPENSATION

4
5 A BILL FOR AN ACT ENTITLED: "AN ACT AMENDING THE LAWS RELATING TO STATE EMPLOYEE COMPENSATION;
6 ARTICULATING A MARKET-BASED PAY PHILOSOPHY; REMOVING THE EXEMPTION FROM THE STATE CLASSIFICATION AND
7 PAY PLAN FOR EMPLOYEES OF THE STATE COMPENSATION MUTUAL INSURANCE FUND; PROVIDING PAY ADJUSTMENTS
8 FOR CLASSIFIED STATE EMPLOYEES FOR FISCAL YEARS 1992 AND 1993; PROVIDING SHIFT DIFFERENTIAL PAY TO
9 PERMANENT EMPLOYEES; AMENDING SECTIONS 2-18-101, 2-18-103, 2-18-301, 2-18-303, 2-18-304, 2-18-305,
10 AND 2-18-312, MCA; AND PROVIDING AN EFFECTIVE DATE."

11
12 STATEMENT OF INTENT

13 In order to recruit and retain competent and qualified public employees to perform required
14 services for the citizens of the state, it is the intent of the legislature to provide for a state
15 employee compensation system based on the prevailing compensation practices found in relevant
16 public-sector and private-sector labor markets.

17 (1) To achieve this end, 2-18-301 requires that the department of administration provide a
18 salary survey report to the legislature. The report may include but is not limited to:

19 (a) data showing the average salaries paid to employees in Montana's labor market for
20 comparable positions;

21 (b) recommendations provided in 2-18-303 for administering the pay increases; and

22 (c) recommendations for adjusting the pay schedules provided in 2-18-312 in order to maintain
23 an internally equitable and competitive salary structure for Montana's state employees.

24 (2) Labor markets relevant to state employees must have positions comparable to those in
25 Montana state government and must compete with Montana for qualified employees.

1
2 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:
3 Section 1. Section 2-18-101, MCA, is amended to read:
4 "2-18-101. **Definitions.** As used in parts 1 through 3 and part 10 of this chapter, the following
5 definitions apply:
6 (1) "Agency" means a department, board, commission, office, bureau, institution, or unit of
7 state government recognized in the state budget.
8 (2) "Base salary" means the amount of compensation paid to an employee excluding:
9 (a) state contributions to group benefits provided in 2-18-703;
10 (b) overtime;
11 (c) fringe benefits as defined in 39-2-903; and
12 (d) the longevity allowance provided in 2-18-304.
13 ~~t27~~(3) "Board" means the board of personnel appeals established in 2-15-1705.
14 ~~t57~~(4) "Class" means one or more positions substantially similar with respect to the kind or
15 nature of duties performed, responsibility assumed, and level of difficulty so that the same
16 descriptive title may be used to designate each position allocated to the class, similar
17 qualifications may be required of persons appointed to the positions in the class, and the same pay
18 rate or pay grade may be applied with equity.
19 ~~t47~~(5) "Class specification" means a written descriptive statement of the duties and
20 responsibilities characteristic of a class of positions and includes the education, experience,
21 knowledge, skills, abilities, and qualifications necessary to perform the work of the class.
22 ~~t57~~(6) "Compensation" means the annual or hourly wage or salary and includes the state
23 contribution to group benefits under the provisions of 2-18-703.
24 ~~t67~~(7) "Department" means the department of administration created in 2-15-1001.
25 ~~t77~~(8) Except in 2-18-306, "employee" means any state employee other than an employee excepted

1 under 2-18-103 or 2-18-104 from the statewide classification system.

2 (9) "Entry salary" means the entry-level base salary for each grade provided in 2-18-312.

3 ††(10) "Grade" means the number assigned to a pay range within a pay schedule in part 3 of this
 4 chapter.

5 ††(11) "Job sharing" means the sharing by two or more persons of a position that is considered
 6 an aggregate or permanent position.

7 ††(12) "Market salary" means the amount established by the legislature as the market-based salary
 8 for each grade in the pay schedules provided in 2-18-312 and representing the middle of the pay
 9 range between the entry-level salary and the maximum salary for a grade.

10 ††(13) "Permanent position" means a position so designated as permanent on the appropriate
 11 agency list of authorized positions referenced in 2-18-206 and approved as such permanent in the
 12 biennium budget.

13 †††(14) "Permanent status" means the state an employee attains after satisfactorily completing
 14 an appropriate probationary period in a permanent position.

15 †††(15) "Personal staff" means those positions occupied by employees appointed by the elected
 16 officials enumerated in Article VI, section 1, of the Montana constitution or by the public service
 17 commission as a whole.

18 †††(16) "Position" means a collection of duties and responsibilities currently assigned or
 19 delegated by competent authority, requiring the full-time, part-time, or intermittent employment of
 20 one person.

21 (17) "Prevailing rate" means the average base salary, as determined by the department's salary
 22 survey of the relevant labor market, that public and private employers, other than the state of
 23 Montana, pay to employees in comparable occupations of each grade in the pay schedules provided in
 24 2-18-312 through 2-18-315.

25 †††(18) "Program" means a combination of planned efforts to provide a service.

1 ~~†57(19)~~ "Seasonal position" means a position ~~so~~ designated as seasonal on the appropriate
2 agency list of authorized positions referenced in 2-18-206 and ~~which~~ that is a permanent position
3 but ~~which~~ is interrupted by the seasonal nature of the position.

4 ~~†6†(20)~~ "Temporary position" means a position ~~so~~ designated as temporary on the appropriate
5 agency list of authorized positions referenced in 2-18-206, created for a definite period of time
6 not to exceed 9 months."

7 Section 2. Section 2-18-103, MCA, is amended to read:

8 **"2-18-103. Officers and employees excepted. Parts 1 and 2 do not apply to the following**
9 positions in state government:

10 (1) elected officials:

11 (2) county assessors and their chief deputy:

12 (3) officers and employees of the legislative branch:

13 4) judges and employees of the judicial branch:

14 (5) members of boards and commissions appointed by the governor, the legislature, or other
15 elected state officials:

16 (6) officers or members of the militia:

17 7) agency heads appointed by the governor:

18 (8) academic and professional administrative personnel with individual contracts under the
19 authority of the board of regents of higher education:

20 (9) academic and professional administrative personnel and live-in houseparents who have
21 entered into individual contracts with the state school for the deaf and blind under the authority
22 of the state board of public education:

23 (10) teachers under the authority of the department of institutions or family services:

24 (11) investment officer, assistant investment officer, executive director, and three
25 professional staff positions of the board of investments:

(12) four professional staff positions under the board of oil and gas conservation;

(13) assistant director for security of the Montana state lottery;

(14) executive director and senior investment officer of the Montana board of science and technology development; and

(15) executive director ~~and employees~~ of the state compensation mutual insurance fund."

Section 3. Section 2-18-301, MCA, is amended to read:

"2-18-301. Purpose and intent of part -- rules. (1) The purpose of this part is to provide the ~~market-based~~ compensation necessary to attract and retain competent and qualified employees in order to perform the services the state is required to provide to its citizens.

(2) It is the intent of the legislature that ~~for the biennium ending June 30, 1991, the:~~

(a) compensation plans for state employees, excluding those employees excepted in 2-18-103 or 2-18-104, be based on an analysis of the labor market as provided by the department in a salary survey report to the legislature by the start of each legislative session;

(b) in each year of the biennium ending June 30, 1993, the market salaries provided in 2-18-312 match the prevailing rate;

(c) pay schedules provided for in 2-18-312 through 2-18-315 supersede any other plan or systems established through collective bargaining after the adjournment of the 51st 52nd legislature;

(d) pay levels provided for in 2-18-312 through 2-18-315 may not be increased through collective bargaining after adjournment of the 51st 52nd legislature; and

(e) total funds required to implement the pay schedules provided for in 2-18-312 through 2-18-315 for any employee group or bargaining unit may not be increased through collective bargaining over the amount appropriated by the 51st 52nd legislature.

(3) The department shall administer the pay program established by the legislature on the basis of merit, internal equity, and competitiveness to external labor markets when fiscally able.

1 (4) The department may promulgate rules not inconsistent with the provisions of this part,
2 collective bargaining statutes, or negotiated contracts to carry out the purposes of this part."

3 Section 4. Section 2-18-303, MCA, is amended to read:

4 "2-18-303. Procedures for utilizing pay schedules. (1) The pay schedules provided in 2-18-312
5 must be implemented as follows:

6 (a) The pay schedules provided in 2-18-312 indicate the annual compensation an entry salary and
7 a market salary for the fiscal years ending June 30, 1998 1992, and June 30, 1991 1993, for each
8 grade and step for positions classified under the provisions of part 2 of this chapter.

9 (b) Each new employee shall advance from step 1 to step 2 of a grade after successfully
10 completing 6 months of probationary service. The anniversary date of an employee most be established
11 at the end of the probationary period in accordance with rules promulgated by the department newly
12 hired by the state of Montana must be hired at the entry rate, except as provided in subsection (7).

13 (c) (i) The compensation of each employee Except as provided in subsection (1)(f), on the
14 first day of the first complete pay period in fiscal year 1998 1992, is that amount corresponding to
15 the grade and step occupied each employee hired before July 1, 1991, is entitled to the amount of
16 the employee's base salary as it was on the last day of fiscal year 1989: June 30, 1991, plus the
17 following increases:

18 (i) an increase of 4% of the employee's base salary; and

19 (ii) an additional increase of 1/4 of 1% of the employee's base salary as it was before the 4%
20 increase for each full percentage point that the employee's base salary as it was before the 4%
21 increase is below the market salary for the employee's assigned grade.

22 iii (v) The compensation of each employee Except as provided in subsection (1)(f), on the first
23 day of the first pay period in fiscal year 1991 1993, is that amount corresponding to the grade and
24 step occupied each employee hired before July 1, 1992, is entitled to the amount of the employee's
25 base salary as it was on the last day of fiscal year 1989: June 30, 1992, plus the following

Increases:

(1) an increase of 4% of the employee's base salary; and

(ii) an additional increase of 1/4 of 1% of the employee's base salary as it was before the 4% increase for each full percentage point that the employee's base salary as it was before the 4% increase is below the market salary for the employee's assigned grade.

(e) The department shall determine the number of full percentage points that an employee's base salary is below the market salary by dividing the employee's base salary by the market salary for the employee's assigned grade, multiplying the result by 100, and subtracting that total from 100.

(f) An employee's base salary may not be less than the entry salary for the employee's assigned grade.

(g) Except as provided in subsections (5) through (8), an employee's base salary may not exceed the market salary by a percentage greater than the percentage that the market salary for the employee's grade exceeds the entry salary for that grade.

(2) The pay schedules provided in 2-18-312 and the provisions of subsection (1) do not apply to these teachers, liquor store occupations, or blue-collar occupations compensated under the pay schedules provided in 2-18-313 through 2-18-315.

(3) The pay schedules provided in 2-18-313 through 2-18-315 must be implemented as follows:

(a) (i) The pay schedules provided for in 2-18-313 indicate the annual compensation for the contracted school term for teachers employed under the authority of the department of institutions or the department of family services for fiscal years 1990 and 1991.

(ii) On the first day of the first pay period in July 1989, each teacher shall advance three steps on the appropriate pay schedule for fiscal year 1990 from the step that he occupied on June 30, 1989.

(iii) The compensation of each teacher on the first day of the first pay period in July 1990 is that amount corresponding to his level of academic achievement and the step occupied on June 30,

1 1990.

2 (b) (i) The pay schedules provided in 2-18-314 indicate the maximum hourly compensation for
3 fiscal years ending June 30, 1990, and June 30, 1991, for those employees in liquor store
4 occupations who have collectively bargained separate classification and pay plans.

5 (ii) The compensation of each employee on the first day of the first pay period in fiscal year
6 1990 or 1991 is that amount corresponding to the grade occupied on the last day of the preceding
7 fiscal year.

8 (c) (i) The pay schedules provided in 2-18-315 indicate the maximum hourly compensation for
9 fiscal years ending June 30, 1990, and June 30, 1991, for employees in apprentice trades and crafts
10 and other blue-collar occupations recognized in the state blue-collar classification plan who are
11 members of units that have collectively bargained separate classification and pay plans.

12 (ii) The compensation of each employee on the first day of the first pay period in fiscal year
13 1990 or 1991 is that amount corresponding to the grade occupied on the last day of the preceding
14 fiscal year.

15 (4) (a) (i) A member of a bargaining unit may not receive the amounts indicated in the
16 respective pay schedules provided in 2-18-312 through 2-18-315 until the bargaining unit of which he
17 is a member ratifies a completely integrated collective bargaining agreement covering the biennium
18 ending June 30, 1991.

19 (ii) If negotiation and ratification of a completely integrated collective bargaining agreement
20 as required by subsection (4)(a)(i) are not completed by July 1, 1989, retroactivity to that date
21 may be negotiated.

22 (iii) If negotiation and ratification of a completely integrated collective bargaining agreement
23 as required by subsection (4)(a)(i) are not completed by July 1, 1989, members of the bargaining
24 unit involved must continue to receive the compensation they were receiving as of June 30, 1989.

25 (v) Methods of administration not inconsistent with the purpose of this part and necessary to

1 properly implement the pay schedules provided in 2-18-312 through 2-18-315 may be provided for in
2 collective bargaining agreements.

3 (5) The current wage or salary of an employee may not be reduced by the implementation of
4 subsection (1) or the pay schedules provided for in 2-18-312 through 2-18-315.

5 (6) The department may authorize a separate pay schedule for medical doctors if the rates
6 provided in 2-18-312 are not sufficient to attract and retain fully licensed and qualified
7 physicians at the state institutions.

8 (7) The department may develop programs that enable the department to mitigate problems
9 associated with difficult recruitment, retention, transfer, or other exceptional circumstances.
10 Insofar as the program may apply to employees within a collective bargaining unit, it is a
11 negotiable subject under 39-31-305.

12 (8) The department shall review the competitiveness of the compensation provided to ~~registered~~
13 ~~nurses--and-other~~ all occupations under this part. If the department finds that substantial problems
14 exist with recruitment and retention because of inadequate salaries when compared to competing
15 employers, the department may establish criteria allowing an adjustment in pay or classification to
16 mitigate the problems. Insofar as these adjustments may apply to employees within a collective
17 bargaining unit, the implementation of these adjustments is a negotiable subject under 39-31-305."

18 Section 5. Section 2-18-304, MCA, is amended to read:

19 "2-18-304. Longevity allowance. (1) (a) In addition to the compensation provided for in
20 2-18-312, 2-18-313, 2-18-314, or 2-18-315, each employee who has completed 5 years of uninterrupted
21 state service shall receive the larger of \$10 a month or 10% 9/10 of 1% of the difference between
22 the employee's base salary compensation for his grade and--step--(where--applicable)--and--the--base
23 compensation--for--the--next--highest--grade--and--corresponding--step--(where--applicable) multiplied by the
24 number of completed, contiguous 5-year periods of uninterrupted state service.

25 (b) Service to the state is not interrupted by authorized leaves of absence.

1 (2) (a) For the purpose of determining years of service under this section, an employee must be
2 credited with 1 year of service for each period of:

3 (i) 2,080 hours of service following his the employee's date of employment; an employee must be
4 credited with 80 hours of service for each biweekly pay period in which he the employee is in a pay
5 status or on an authorized leave of absence without pay, regardless of the number of hours of
6 service in the pay period; or

7 (ii) 12 uninterrupted calendar months following his the date of employment in which he the
8 employee was in a pay status or on an authorized leave of absence without pay, regardless of the
9 number of hours of service in any one 1 month. An employee of a school at a state institution or the
10 university system must be credited with 1 year of service if he the employee is employed for an
11 entire academic year.

12 (b) State agencies, other than the university system and a school at a state institution, shall
13 use the method provided in subsection (2)(a)(i) to calculate years of service under this section."

14 Section 6. Section 2-18-305, MCA, is amended to read:

15 "2-18-305. Allocation between wages and group benefits. (1) The dollar amounts shown in the
16 respective pay schedules provided in 2-18-312; 2-18-313, 2-18-314, or 2-18-315; ~~as the case may be;~~
17 represent the maximum amount allocated by the state for wages and group benefits, exclusive of
18 longevity as defined in 2-18-304, for an employee covered by a schedule provided in 2-18-313,
19 2-18-314, or 2-18-315.

20 (2) Except as provided in subsection (2)(b) ~~of this section~~ (4), that the amount specifically
21 allocated for group benefits shall be is determined by 2-18-703.

22 (3) (a) An employee covered under the pay schedules provided in 2-18-312 who elects not to be
23 covered by a state employee group benefit plan under the provisions of 2-18-703 shall receive as
24 wages the employee's base salary, including adjustments provided in 2-18-303(1)(c) and (1)(d) and
25 2-18-304.

1 (b) An employee covered under the pay schedules provided in 2-18-313, 2-18-314, or 2-18-315 who
 2 elects not to be covered by a state employee group benefit plan ~~with~~ under the provisions of
 3 2-18-703 shall receive as wages, exclusive of the longevity allowance provided in 2-18-304, the
 4 amount shown in the appropriate pay schedule less the state contribution for group benefits as
 5 determined by 2-18-703.

6 (2)(4) Employees may, through collective bargaining, determine the allocation of the amounts
 7 shown in the pay schedules provided in 2-18-312, 2-18-313, 2-18-314, or 2-18-315, as the case may
 8 be, compensation between wages and group benefits, except that in no case may the group benefits
 9 allocation be less than the amounts provided in 2-18-703."

10 Section 7. Section 2-18-312, MCA, is amended to read:

11 "2-18-312. Statewide pay schedules for fiscal years 1998--and 1991 1992 and 1993. (1) The
 12 statewide classification pay schedule for fiscal year 1998 1992 is as follows:

13 Annual Hours -- 2080

Note: ~~includes~~ Does Not Include Insurance

14 Pay Matrix -- State

Matrix Type -- Annual

15 STEP

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
16	GRADE	--1	--2	--3	--4	--5	--6	--7	--8	--9	-10	-11	-12	-13		
17	1	18:132	18:039	11:041	11:247	11:457	11:671	11:890	12:113	12:340	12:572	13:009	13:058	13:542		
18	2	18:614	11:357	11:569	11:786	12:007	12:232	12:462	12:696	12:935	13:179	13:428	13:682	14:200		
19	3	11:138	11:921	12:145	12:373	12:606	12:843	13:085	13:332	13:584	13:841	14:103	14:378	14:915		
20	4	11:711	12:537	12:773	13:014	13:259	13:509	13:764	14:024	14:290	14:561	14:837	15:119	15:694		
21	5	12:343	13:216	13:466	13:721	13:981	14:246	14:516	14:792	15:073	15:360	15:652	15:950	16:558		
22	6	13:035	13:960	14:224	14:494	14:769	15:050	15:336	15:628	15:926	16:238	16:548	16:856	17:581		
23	7	13:802	14:785	15:066	15:353	15:645	15:943	16:247	16:557	16:873	17:196	17:525	17:861	18:546		
24	8	14:629	15:674	15:973	16:278	16:589	16:906	17:229	17:559	17:895	18:238	18:588	18:945	19:673		
25	9	15:547	16:662	16:988	17:305	17:636	17:974	18:319	18:671	19:030	19:396	19:769	20:158	20:926		

1	†0	†6,553	†7,743	†8,003	†8,430	†8,784	†9,145	†9,513	†9,880	20,271	20,662	21,060	21,466	22,295
2	†1	†7,652	†8,925	†9,289	†9,660	20,038	20,424	20,810	21,220	21,630	22,040	22,474	22,909	23,796
3	†2	†8,860	20,233	20,623	21,021	21,427	21,841	22,263	22,693	23,132	23,580	24,037	24,503	25,477
4	†3	28,204	21,669	22,080	22,515	22,951	23,395	23,840	24,310	24,780	25,261	25,763	26,295	27,341
5	†4	21,000	23,471	23,926	24,390	24,872	25,366	25,870	26,384	26,909	27,444	27,991	28,547	29,603
6	†5	23,625	25,369	25,873	26,388	26,912	27,447	27,994	28,550	29,110	29,697	30,289	30,891	32,121
7	†6	25,613	27,529	28,077	28,635	29,205	29,786	30,379	30,984	31,601	32,230	32,872	33,527	34,862
8	†7	27,707	29,867	30,462	31,069	31,687	32,317	32,961	33,617	34,286	34,969	35,665	36,375	37,825
9	†8	30,190	32,451	33,097	33,756	34,429	35,114	35,813	36,527	37,255	37,997	38,754	39,526	41,191
10	†9	32,031	35,291	35,994	36,710	37,441	38,187	38,948	39,724	40,515	41,323	42,146	42,986	45,986
11	20	35,714	38,391	39,156	39,936	40,731	41,543	42,371	43,216	44,077	44,955	45,851	45,851	45,851
12	21	38,685	41,002	42,635	43,485	44,352	45,236	46,136	47,050	47,996	48,953	48,953	48,953	48,953
13	22	42,366	45,544	46,452	47,379	48,324	49,287	50,270	51,273	52,295	52,295	52,295	52,295	52,295
14	23	46,174	49,639	50,629	51,630	52,669	53,719	54,790	55,883	55,883	55,883	55,883	55,883	55,883
15	24	50,350	54,137	55,210	56,320	57,443	58,589	59,757	59,757	59,757	59,757	59,757	59,757	59,757
16	25	54,953	59,079	60,250	61,460	62,606	63,936	63,936	63,936	63,936	63,936	63,936	63,936	63,936

Range: Entry Salary to Market Salary

		Entry Salary	Market Salary
18	1	8,508	10,009
19	2	9,165	10,808
20	3	9,872	11,669
21	4	10,638	12,605
22	5	11,496	13,653
23	6	12,423	14,789
24	7	13,418	16,012

1	2	14,544	17,397
2	9	15,748	18,882
3	10	17,081	20,530
4	11	18,531	22,327
5	12	20,140	24,324
6	13	21,885	26,495
7	14	23,817	28,904
8	15	25,944	31,562
9	16	28,316	34,532
10	17	30,963	37,852
11	18	33,881	41,521
12	19	37,150	45,639
13	20	40,799	52,444
14	21	44,853	55,374
15	22	49,381	61,115
16	23	54,489	67,604
17	24	60,224	74,905
18	25	66,570	83,004

2) The statewide classification pay schedule for fiscal year 1991 1993 is as follows:

Annual Hours -- 2080 Note: Includes Does Not Include Insurance

Pay Matrix -- State Matrix Type -- Annual

STEP

23	GRADE	--1	--2	--3	--4	--5	--6	--7	--8	--9	--10	--11	--12	--13
24	+	10:932	11:639	11:841	12:047	12:257	12:471	12:690	12:919	13:140	13:372	13:609	13:850	14:042
25	+	11:414	12:157	12:369	12:586	12:807	13:032	13:262	13:496	13:735	13:979	14:220	14:482	15:000

1	3	11938	127721	127945	137173	137406	137643	137885	147132	147384	147641	147903	157170	157715
2	4	127511	137337	137573	137814	147859	147389	147564	147824	157898	157361	157637	157919	167494
3	5	137143	147816	147266	147521	147781	157846	157316	157592	157873	167168	167452	167758	177358
4	6	137835	147768	157824	157294	157569	157858	167136	167428	177038	177348	177656	187381	
5	7	147682	157585	157866	167153	167445	167743	177847	177357	177673	177996	187325	187661	197346
6	8	157439	167474	167773	177878	177389	177786	187829	187359	187695	197838	197388	197745	207473
7	9	167347	177462	177788	187185	187436	187774	197119	197471	197838	207196	207569	207958	217726
8	10	177353	187543	187883	197238	197584	197945	207313	207688	217871	217462	217868	227266	237895
9	11	187452	197725	207889	207468	207838	217224	217618	227028	227438	237848	237274	237789	247596
10	12	197668	217833	217423	217821	227227	227641	237863	237493	237932	247388	247839	257317	267315
11	13	217884	227469	227888	237315	237751	247195	247648	257119	257689	267114	267629	277153	287226
12	14	227688	247271	247726	257201	257695	267281	267718	277245	277783	287331	287892	297462	307626
13	15	247425	267284	267721	277249	277786	287334	287895	297465	307047	307648	317247	317864	337125
14	16	267454	287418	287988	297552	307136	307732	317339	317968	327592	337237	337895	347566	357935
15	17	287683	307815	317435	327047	327688	337326	337986	347658	357344	367044	367758	377485	387972
16	18	317146	337463	347125	347881	357491	367193	367989	377641	387387	397148	397924	407715	427388
17	19	337853	367874	377895	377829	387578	397343	407123	407918	417729	427557	437401	447262	447262
18	20	367888	397552	407336	417135	417958	427783	437631	447497	457388	467288	477198	477198	477198
19	21	407858	437848	437882	447773	457662	467568	477492	487435	497397	507378	507378	507378	507378
20	22	437826	467884	477814	487764	497733	507728	517728	527756	537883	537883	537883	537883	537883
21	23	477529	517881	527886	537138	547187	557263	567361	577481	577481	577481	577481	577481	577481
22	24	517818	557891	567799	577929	597888	607255	617452	617452	617452	617452	617452	617452	617452
23	25	567528	607757	617865	637198	647434	657735	657735	657735	657735	657735	657735	657735	657735

Range: Entry Salary to Market Salary

Grade

Entry

Market

1	<u>8,848</u>	<u>10,409</u>
2	<u>9,532</u>	<u>11,240</u>
3	<u>10,267</u>	<u>12,136</u>
4	<u>11,064</u>	<u>13,109</u>
5	<u>11,956</u>	<u>14,199</u>
6	<u>12,919</u>	<u>15,380</u>
7	<u>13,955</u>	<u>16,652</u>
8	<u>15,126</u>	<u>18,093</u>
9	<u>16,378</u>	<u>19,638</u>
10	<u>17,764</u>	<u>21,351</u>
11	<u>19,272</u>	<u>23,220</u>
12	<u>20,945</u>	<u>25,296</u>
13	<u>22,760</u>	<u>27,555</u>
14	<u>24,769</u>	<u>30,060</u>
15	<u>27,982</u>	<u>32,824</u>
16	<u>29,449</u>	<u>35,913</u>
17	<u>32,201</u>	<u>39,366</u>
18	<u>35,236</u>	<u>43,182</u>
19	<u>38,636</u>	<u>47,465</u>
20	<u>42,430</u>	<u>52,254</u>
21	<u>46,647</u>	<u>57,589</u>
22	<u>51,356</u>	<u>63,559</u>
23	<u>56,669</u>	<u>70,308</u>
24	<u>62,633</u>	<u>77,901</u>
25	<u>69,232</u>	<u>86,325"</u>

1 NEW SECTION. Section 8. **Shift differential pay -- purpose and eligibility.** (1) The purpose of
2 shift differential pay is to compensate employees for a regular work schedule that differs from the
3 customary flexible day shift.

4 (2) An employee in a permanent position as defined in 2-18-101 must receive \$1 per hour in
5 addition to his base salary for each regularly scheduled hour worked as part of an extended service
6 obligation of an agency after 7 p.m. and before 6 a.m. on any day of the week, including weekends.

7 NEW SECTION. Section 9. **Codification instruction.** [Section 8] is intended to be codified as an
8 integral part of Title 2, chapter 18, part 3, and the provisions of Title 2, chapter 18, part 3,
9 apply to [section 8].

10 NEW SECTION. Section 10. **Effective date.** [This act] is effective July 1, 1991.

-End-

APPENDIX B

COMMITTEE ON STATE EMPLOYEE COMPENSATION

Biographical Sketches

October 1989

BOB MARKS, a Clancy resident, is Deputy Director of the Department of Administration and Chairman of the Committee on State Employee Compensation. Mr. Marks is also a rancher and former state legislator. He served in the House of Representatives from 1969 through 1989. During the 1981 and 1987 sessions, he was Speaker of the House. Mr. Marks attended Montana State University and the University of Montana.

RALPH ANDERSON, a Clancy resident, is owner of the Capital Ford Lincoln Mercury Toyota dealership in Helena. Mr. Anderson has been involved in the automobile business since the early 1950s when he took over his father's business. He attended Carroll College and graduated from the University of Montana with a degree in Business Administration with a minor in Economics. Mr. Anderson is active in numerous educational, civic, and charitable organizations.

BARBARA BOOHER, a Clancy resident, is Executive Director of the Montana Nurses Association. Ms. Booher has also worked as a financial planner and been employed in several positions in the Montana Department of Revenue, including Assistant Chief of the Child Support Bureau. She has also worked as a life skills trainer and counselor, social worker, and probation counselor. Ms. Booher has a bachelor's degree in Psychology with a minor in business Administration from the University of Montana.

VICKI COCCHIARELLA, a Missoula resident, is an administrative clerk in the Registrar's Office at the University of Montana. Ms. Cocchiarella was also a teaching assistant at the university and assistant manager of a Spokane employment agency. She is serving her second term as a

member of the House of Representatives. Ms. Cocchiarella is Second Vice-President of the Montana Public Employees Association and President of the University of Montana collective bargaining chapter of MPEA. She has a bachelor's and master's degree in Interpersonal Communications from the University of Montana.

GERRY DEVLIN, a Terry native, is a rancher and former director and past president of the Montana Woolgrowers Association. Mr. Devlin served in the House of Representatives from 1981 through 1987; he is currently serving his first term in the Senate. He attended local schools in Miles City.

BOB KELLY, a Missoula resident, is President of Intertec, a firm offering consulting services in the areas of governmental affairs, applied technology transfers, and media/community relations. Previously, Mr. Kelly was responsible for governmental affairs services for the western office of Champion International and worked for the Anaconda Company. He has a bachelor's degree in Biological Science from the University of Montana and a graduate degree in Engineering from the University of Minnesota. Mr. Kelly also attended veterinary school at Colorado State University.

GENE O'HARA, a Missoula resident, is Executive Vice-President and Chief Operating Officer of St. Patrick Hospital in Missoula. Mr. O'Hara has served as Vice-President of Business Development for Deaconess Care Corporation, Inc.; Vice-President for Professional/Outreach Services for Deaconess Medical Center of Billings, Inc.; Executive Director of Montana-Wyoming Health Resources; and Assistant Professor in the School of Pharmacy at Purdue University. He has a bachelor's degree in Pharmacy from the University of Montana, a doctor's degree in Clinical Pharmacy from the University of the Pacific in California, and a master's degree in Health Care Administration from the University of Colorado.

JOHN RADECK, a Helena resident, is President/General Manager of KTVH, the Helena television station. Mr. Radeck has served as General Manager for three other television stations: WJBF-TV in Augusta, Georgia; KESQ-TV in Palm Springs, California; and WJKS-TV in Jacksonville, Florida. He has been active in numerous civic and professional organizations. Mr. Radeck has a bachelor's degree in Theater Arts from Pasadena Playhouse College of Fine Arts.

TOM SCHNEIDER, a Clancy resident, is Executive Director of the Montana Public Employees Association. Mr. Schneider was employed in several positions with the Teacher's Retirement System, including Assistant Executive Secretary. He also operated a family bowling alley and lounge for several years. Mr. Schneider studied general business and accounting at Montana State University and Carroll College and has taken graduate courses at Stanford University and the University of California. He is also a graduate of the American Bankers School offered through Ohio State University and the American Bankers Association.

APPENDIX C

GLOSSARY

Compa-ratio	This is used to define the difference between salaries paid by the state and salaries paid by other employers. For example, a compa-ratio of .87 means that the state pays 87% of what other employers pay. It may also be stated that other employers pay 13% more than the amount the state pays. Compa-ratios may refer to a specific comparison between salaries for similar jobs, occupations, grades, or entire groups of employees.
Market Salary	This is the salary paid for a similar job by other employers. It may consist of an actual average salary, an average midpoint salary, or an actual weighted average salary.
Midpoint	This is the salary that lies halfway between the lowest or entry level salary and the maximum salary available for a job that is paid according to a pay structure with defined pay ranges. Midpoint salaries are used to compare one pay structure to another in order to determine whether they are competitive for similar jobs. Two organizations (A & B) may have competitive pay structures, i.e., pay ranges with the same midpoints. However, the average salaries of employees in organization A may differ from the average salaries of employees performing similar jobs in organization B because the employees in A are new and paid at entry level while the employees in B are experienced and paid at the top of the range.
Pay Range	This is the percentage difference between the entry level salary and the maximum level salary assigned to each

salary grade. Pay ranges are typically narrower for clerical and technical jobs and wider for professional and management jobs. A pay range may be an "open" range, or it may include "steps" that predetermine salary increments between the entry level salary and maximum level salary of the range. Pay ranges are building blocks for pay structures.

Pay Structure This consists of a salary matrix that reflects salary relationships between different jobs within an organization. A pay structure provides the number of salary grades available and the pay range for each grade level. Pay structures can be adjusted to mirror what other employers pay.

Salary Grade This is a grouping of jobs in different occupations that are determined to have a similar level of complexity and responsibility. Each grade is then assigned a minimum and maximum amount of pay, with the pay range for each grade increasing as the complexity and responsibilities increase. The state of Montana has 25 grades.

Salary Survey Line This is a straight or curved line that represents the average salaries paid by surveyed employers for comparable jobs in each grade.

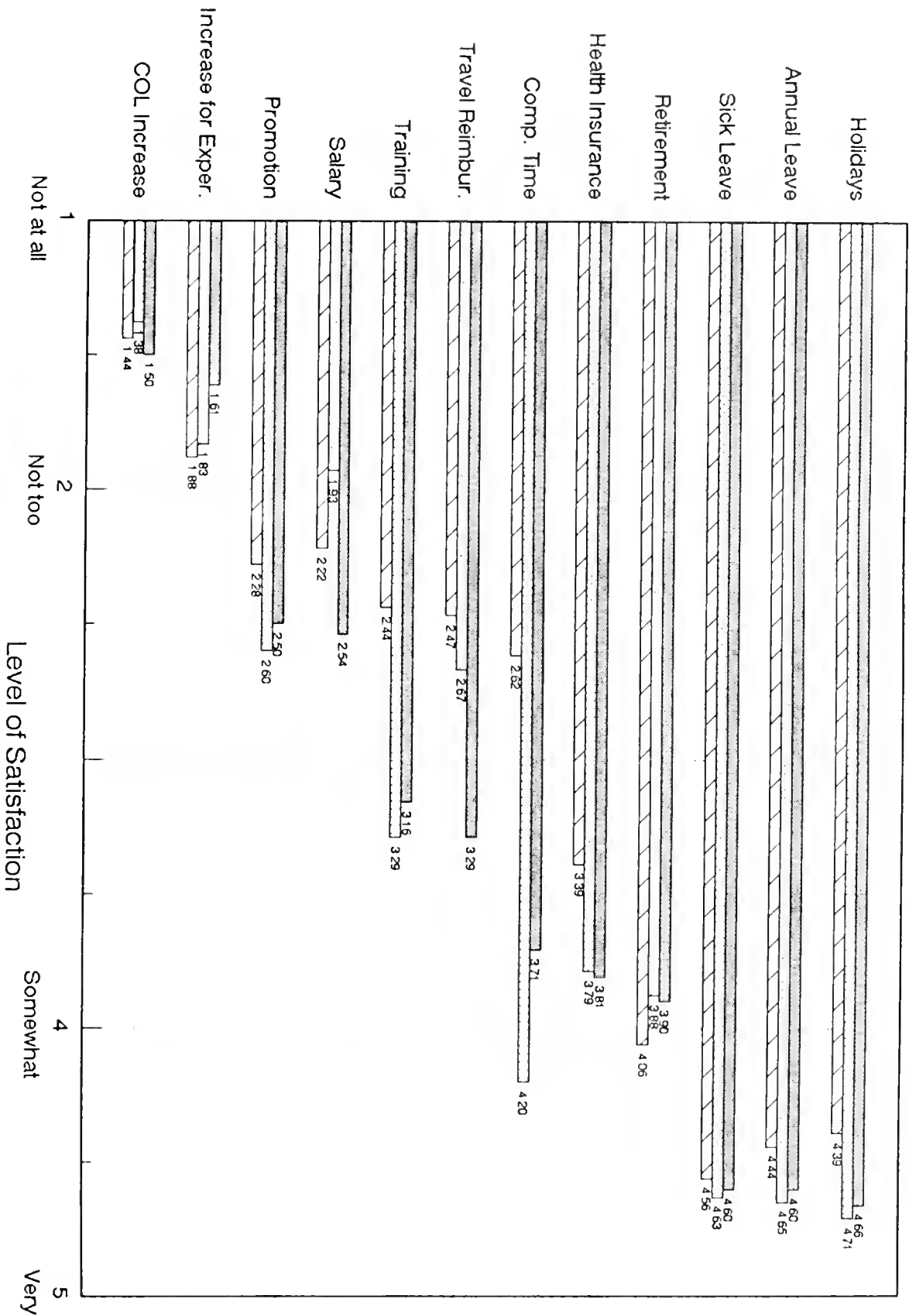
Simple Average Salary This is an average salary based on the number of organizations that pay a certain salary for a job.

Step This predetermines the salary increments between the entry level salary and maximum level salary for each pay range of a pay structure.

Weighted Average Salary This is an average salary based on how many employees in an organization are paid a certain salary for a job.

APPENDIX D

Problem Identification Survey -- April 1990 The Level of Satisfaction With What the State Currently Provides



Source: Montana Legislative Council and Department of Administration

APPENDIX E

REPORTS
PREPARED FOR THE
COMMITTEE ON STATE EMPLOYEE COMPENSATION

The Waters Consulting Group, Inc., Dallas, Texas

"Compensation Overview," April 1990.

"Preliminary Audit Results: Montana's State Employee Compensation," May 1990.

"The State of Montana: Compensation Issues and Recommendations," June 1990.

State Personnel Division, Department of Administration

"Pay Plan Options," June 1990.

"Summary of State Turnover: July 1, 1989 through June 30, 1990," August 1990.

"Pay Plan Exceptions Report: FY 1990," August 1990.

Montana Legislative Council

"State Employee Compensation and Related Issues," October 1989, prepared by Lois Menzies.

"A Comparison of State Government Tax Revenue in Montana and Surrounding States," March 1990, prepared by Jeff Martin.

"State Employee Compensation: Results of Survey of Employees, Managers, and Union Representatives," April 1990, compiled by the Legislative Council and the Department of Administration.

"Summary Analysis: Problem Identification Survey Results," April 1990, prepared by Sheri S. Heffelfinger.

"Direct Compensation Plans of Twelve Other States," June 1990, prepared by Sheri S. Heffelfinger.

"Special Compensation: Issue Summary," July 1990, prepared by Sheri S. Heffelfinger.

"Separate Pay Plan Proposals: Issue Summary," July 1990,
prepared by Sheri S. Heffelfinger.

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